

Press Release

**EKK Infrastructure Limited (EIL)**

April 07, 2020

**Ratings**

Sl. No	Instrument/ Facility	Amount in Cr.	Ratings	Rating Action
1	Long Term Bank Facilities – Cash Credit	120.00	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Assigned
2	Short Term -Bank Guarantee	444.00*	IVR A2 (IVR A Two)	Assigned
	<b>Total</b>	<b>564.00</b>		

*\*Includes proposed Bank Guarantee of Rs. 24.74 Crore*

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating assigned to the bank facilities of EKK Infrastructure Limited derives comfort from Long-standing presence in the sector, Experienced Board of Directors, Healthy order books position, Y-o-Y improvement in revenue and stable EBITDA Margin, Low counter-party credit risk and financial assistance in the form of mobilisation advance. However, the rating strengths are partially offset by Geographical and client Concentration Risk, Moderate capital structure and debt protection metrics, Moderate Liquidity & elongated operating cycle, Volatile input prices and highly fragmented & competitive nature of the construction sector.

**Key Rating Sensitivities**

**Upward rating factor(s)**

- Collective developments that could lead to a positive rating action include:
  - a substantial improvement in the gross working capital cycle
  - a sustained improvement in the revenue and debt protection parameters while maintaining the profitability.
  - reduction in concentration risks

## Downward rating factor(s)

- A decline in the revenue and/or profitability and/or an increase in the gross working capital cycle or concentration risk.
- Significant deterioration in debt protection parameters

## Key Rating Drivers with detailed description

### Key Rating Strengths

#### *Long-standing presence in the sector*

EKK infrastructure Limited is into civil construction for more than four decades. EKK Infrastructure Limited covers civil design and engineering, procurement of construction material, fuel and equipment, and execution of the project explicit in the sectors of irrigation, roadways and bridges. EIL has executed orders for The National Highway Authority of India (NHAI), Cochin International Airport Limited (CIAL), Kerala Public Works Department (KPWD) and World Bank Funded projects among others. EIL has formed 50% joint venture with GHV India Private Limited to execute major projects. EIL has formed a SPV with Inkel Ltd. a quasi- Government Company to undertake road development in Kerala.

#### *Experienced Board of Directors*

EIL was founded in the year 1972 as a sole proprietorship firm as a EKK & Co. by Mr. Enjakkudy Kochahamed Kunjumohamed, to undertake civil work for the Kerala government. With the time span of more than four decades in civil construction he has developed a deep understanding of the sector and established strong working relations with major stakeholders. Now, Mr. Sanju Muhammed and Mr. Sachin Muhammed son of EKK Muhammed have taken over the Management.

#### *Strong order books position and projects in pipeline providing medium term revenue visibility*

As on 31.12.2019, EIL has an unexecuted order book amounting to Rs. 2161.83cr. this is 5.23 times of FY19 revenue. Successful execution of the projects has also helped it in getting repeat and large-sized orders from clients. Due to the healthy client profile, the company has low counterparty credit risk, though at times there can be delays in realisations of some bills. EIL has a reputation for timely completion of projects.

## ***Y-o-Y improvement in revenue and stable EBITDA Margin***

There has been a constant improvement in the performance of the Company in terms of growth in revenue and EBITDA margin from FY17 to FY19. The revenue had increased to Rs.413.04 crore in FY19 (FY17: Rs. 273.6 crore, FY18: Rs.289.17 crore) with a CAGR growth of 22.9% from FY17 to FY19. Improvement in revenue is backed by increased orders coupled with execution. The EBITDA margin is range bound from FY17 to FY19 i.e.11%-13% in FY19 on account of EIL not relying much on sub-contractors in FY19. Almost all the contracts executed by the company have escalation clauses built-in, safeguarding its margins from input price volatility

## ***Low counter-party credit risk***

Most of the EIL projects are from Central Government which are funded by institutions like World Bank and Asian Development Bank, and have lesser issues in term of funding and execution. The funding facilitates timely completion of projects. EIL also has skilled manpower and adequate infrastructure in terms of construction machinery and equipment's of its own.

## ***Financial assistance in the form of mobilisation advance***

EIL has received a portion of the contract costs as mobilisation advances from the client, this enables them to run multiple parallel projects at a time; this acts as a financial assistance to the company and eases the burden of financing from their shoulders. These advances given are interest free and help the company at different stages of the project life cycle. These advances are backed by bank guarantees and project specific bank guarantee amounting to Rs. 414.26 crores (SBI – Rs. 209.36 crore, Indian Bank – Rs. 70 crore, Union bank of India Rs. 65.00 crore, Federal Bank Rs. 50.00 Crore &HDFC Bank – Rs. 19.90 crore).

## **Key Rating Weaknesses**

### ***Geographical and client Concentration Risk***

EIL's geographic-concentration risk remains moderately high as it executes more than 90% of projects from the states of Kerala and few projects in Tamilnadu. Though, this year EIL has expanded its business in Nepal too. Also, top 5 clients share around 70.54% in FY19 and single client shares 43.59% in total revenue in FY19 thus posing client concentration risk too.

### ***Moderate capital structure and debt protection metrics***

Company's capital structure remained moderate as on the past three account closing dates ending FY19. The overall gearing ratio increased to 1.43x in FY19 (FY18: 1.17x) driven by increase in term loans and short term bank borrowings. Though going forward Total debt/GCA, interest coverage & other debt protection metrics are expected to remain comfortable driven by scheduled repayment of term loans and accretion of profit to reserves

### ***Moderate Liquidity & elongated operating Cycle***

Working capital requirement is inherently large in the EPC industry given the high dependence on state and central government authorities for timely receipt of payments. So, the cash conversion cycle is high for EIL and stood at 120 days in FY19 mainly due to high inventory days of 160 days in FY19. Majority of the projects are in initial stage so inventory of the nature work in progress is high for EIL. The average utilization of working capital bank limit during the last 12 months ended January, 2020, stood high at about 90%. The bank limit has been heavily utilised can be attributed towards the nature of the industry that the company works

### ***Volatile input prices***

Major raw materials used in civil/construction activities are steel, cement, stone, sand etc. which EIL usually sourced from large players like JSW Steel Limited, Bharat Petroleum Corporation Limited, The India Cements Limited at proximate distances. The input prices are generally volatile and have direct linkage with state of the economy which may impact the profitability of EIL. However, the availability of the price variation clause mitigates the risk to major extent.

### ***Highly fragmented & competitive nature of the construction sector with significant price war***

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of concern as the same can dent the margins.

## Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

## Liquidity: Adequate

Liquidity is adequate, characterised by gross cash accruals of Rs. 20.33 crore in FY19 and a sizeable cash balance of Rs. 37.93 crores as on March 31, 2019, supported by an above unity current ratio of 1.30x. Though, the average utilization of working capital bank limit during the last 12 months ended January 31st, 2020, stood at about 90% given the fact that the bank limit has been heavily utilised can be attributed towards the nature of the industry that the company works in.

## About the Company

EKK Infrastructure Limited (EIL) was incorporated in 2015 to take over the business of EKK & Co, a sole proprietorship firm set up in 1972. The company is based out of Ernakulum, Kerala, and is engaged in the EPC business.

## Financials:

In Crs.

For the year ended*/ As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	289.17	413.04
EBITDA	37.40	46.32
PAT	11.90	12.83
Total Debt	94.57	134.46
Tangible Net-worth	81.05	93.89
<b>Ratios</b>		
EBITDA Margin (%)	12.93	11.21
PAT Margin (%)	4.10	3.27
Overall Gearing Ratio (x)	1.17	1.43

\* Classification as per Infomerics' standards

# Infomerics Valuation and Rating Pvt. Ltd.



**Status of non-cooperation with previous CRA:** India Ratings & Research in its press Release published on March 06, 2020 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information

**Any other information:** N.A

**Rating History for last three years:**

Sl. No	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Bank Facilities-Cash Credit	Long Term	120.00	IVR BBB+/Stable Outlook	--	--	--
2	Short Term -Bank Guarantee	Short Term	444*.00	IVR A2 (IVR A Two)	--	--	--
	<b>Total</b>		<b>564.00</b>				

*\*Includes proposed Bank Guarantee of Rs. 24.74 Crore*

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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## **About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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## Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities-CC	--	--	--	120.00	IVR BBB+/Stable Outlook
Short Term Bank Facilities-Bank Guarantee	--	--	--	444.00*	IVR A2
<b>Total</b>	--			<b>564.00</b>	

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