



## Press Release

### EKK Infrastructure Limited (EIL)

July06, 2021

#### Ratings:

(INR Crore)

Instrument / Facility	Amount	Ratings	RatingAction
Long Term Fund Based Bank Facilities - Term Loans *	28.86	IVR BBB+/Stable Outlook (IVR Triple B Plus with StableOutlook)	Assigned
Long Term Fund Based Bank Facilities - Cash Credit	120.00	IVR BBB+/Stable Outlook (IVR Triple B Plus with StableOutlook)	Reaffirmed
Short Term Non-Fund Based Facilities - Bank Guarantee	391.26 (Reduced from 419.26)	IVR A2 (IVR A Two)	Reaffirmed
Proposed Short Term Non-Fund Based Facilities- Bank Guarantee	23.88 (Reduced from 24.74)	IVR A2 (IVR A Two)	Reaffirmed
<b>Total</b>	<b>564.00</b>		

\* Includes CECL of INR 5.63 Crore and GECL of INR 23.23 Crore.

#### Details of Facilities are in Annexure 1

#### Detailed Rationale:

The affirmation of the ratings assigned to the bank facilities of EIL continue to derive strength from its long-standing presence in the sector, experienced promoters & management team, healthy order books position and projects in pipeline providing short to medium term revenue visibility, y-o-y improvement in revenue and EBITDA margin, low counter-party credit risk, financial assistance in the form of mobilisation advance. However, the rating strengths are partially offset by geographical & client concentration of order book, moderate capital structure and debt protection metrics, moderate liquidity & elongated operating cycle, highly fragmented and competitive nature of the sector with significant price war and susceptibility of operating margin to volatile input prices.



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### Key Rating Sensitivities:

#### Upward Factors:

- Collected 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 Factors:

- 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 also enters into joint venture to procure & execute orders.

##### Experienced promoters & management team:

Company was founded in the year 1972 as a sole proprietorship firm as a EKK & Co. by Mr. Enjakkudy Kochahamed Kunju Muhammed, 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. The company has a team of experienced and capable professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience with technological background.



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### **Healthy order books position and projects in pipeline providing short to medium term revenue visibility:**

The company has a healthy unexecuted order book of INR 854.71 crore as on 31 March 2021 with orders across 9 contracts which is about 1.30 times of its FY21 revenue. Majority of the orders are expected to be completed by FY23, indicating a satisfactory near to medium term revenue visibility. 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. Company did not bid for new projects in FY20-21. Currently the company is L1 for 3 projects amount to INR 894.69 Crore.

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

There has been an improvement in the performance of the company in terms of growth in revenue from FY18 to FY21. The revenue had increased to INR 656.35 Crore in FY21 (FY18: INR 289.35 Crore, FY19 INR 413.30 Crore, FY20: INR 455.74 Crore) with a CAGR growth of 22.72% from FY18 to FY21. Improvement in revenue is backed by increased orders coupled with execution. The EBITDA margin is improved to 8.94% in FY21 from 8.06% in FY20. Almost all the contracts executed have escalation clauses built-in, safeguarding its margins from input price volatility. However, EBITDA margin decline in FY20 to 8.06% from 11.34% in FY19 due to increase in the proportion of execution of orders by sub-contractor coupled with extended monsoon leading to lower absorption of fixed cost.

### **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



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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.

### **Key Rating Weaknesses:**

#### **Geographical & Client concentration of order book:**

Geographical concentration though declined but remains high with contribution to total revenue was at 59.78%, 26.61%, 13.09 & 0.53% from Kerala, Tamil Nadu, Nepal & other states respectively. Whereas the unexecuted order book remained concentrated with 68.16% from Kerala, followed by 26.11% from Nepal 5.73% from Tamil Nadu. The unexecuted order book is client concentrated with 31.94% from NHAI, 26.46% from KSTP, 26.11% from DoLIDAR (Nepal), 14.05% from KIIFB and 1.43% from MoRTH. However, the company has adequate experience to execute projects in these states and also operating in a concentrated geography and clients provides efficient control and reduces the logistical expense.

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

Company's capital structure remained moderate as on the past four account closing dates ending FY21. The overall gearing ratio remained at 1.51 in FY21. Debt protection parameters also remained moderate with interest coverage ratio of 2.01x in FY21 and 1.42x in FY20. The net worth of company stood at INR 120.32 Crore as on 31 March 2021 as against INR 96.78 Crore as on 31 March 2020. Total debt increased to INR 181.44 Crore in FY21 from INR 168.45 Crore in FY20. Total Debt / GCA ratio was at 6.51 times in FY2021. 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 108 days in FY21 mainly due to high inventory days of 145 days in FY21. The average cash credit utilisation for the last 12 months ended 31st May 2021 stood at 89.31%. The bank limit has been heavily utilised can be attributed towards the nature of the industry that the company works.

#### **Highly fragmented and competitive nature of the sector with significant price war:**



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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.

### **Susceptibility of operating margin to volatile input prices:**

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including subcontracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause in most of the contracts protect the margin to an extent.

### **Analytical Approach:** Standalone

### **Applicable Criteria:**

Rating Methodology for Infrastructure Companies.

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity–Adequate**

The Company has adequate liquidity marked by strong net cash accruals to its maturing debt obligations. Also, the company do not have any major long-term repayment obligations and major capex plans. The average cash credit utilisation for the last 12 months ended 31st May 2021 stood at 89.31% and has unutilized bank guarantee limit amounting to INR 169.23 Crore as on 31st May 2021. The current ratio stood at 1.38 times as on 31st March 2021. The cash & cash equivalent stood at INR 44.78 Crore as on 31st March 2021.

### **About the Company:**

EKK Infrastructure Limited (EIL) is a leading engineering, procurement and construction (EPC) company based in Ernakulam, Kerala) incorporated in 2015 to take over the business of EKK& Co, a sole proprietorship firm set up in 1972.

### **Financials: Standalone**

(INR Crore)



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For the year ended/ As On	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	455.74	656.35
EBITDA	36.72	58.66
PAT	2.99	17.08
Total Debt	168.45	181.44
Tangible Net-worth	96.78	120.32
<b>Ratios</b>		
EBITDA Margin (%)	8.06	8.94
PAT Margin (%)	0.65	2.58
Overall Gearing Ratio (x)	1.74	1.51

**Status of non-cooperation with previous CRA: Nil**

**Any other information: NA**

**Rating History for last three years:**

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Apr/07/2020)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Bank Facilities - Term Loans	Long Term	28.86	IVR BBB+/ Stable	--	--	--
2.	Long Term Fund Based Bank Facilities – Cash Credit	Long Term	120.00	IVR BBB+/ Stable	IVR BBB+/Stable	--	--





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3	Short Term Facility Non-Fund Based - Bank Guarantee	Short Term	391.26 (Reduced from 419.26)	IVR A2	IVR A2	--	--
4	Proposed Short Term Facility Non-Fund Based - Bank Guarantee	Short Term	23.88 (Reduced from 24.74)	IVR A2	IVR A2	--	--

**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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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 (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities - Term Loans	--	--	Upto Apr 2026	28.86	IVR BBB+/ Stable
Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	120.00	IVR BBB+/ Stable
Short Term Facility Non Fund Based - Bank Guarantee	--	--	--	391.26	IVR A2
Proposed Short Term Facility Non-Fund Based - Bank Guarantee	--	--	--	23.88	IVR A2

### Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lender-EKK-06-07-21.pdf>