Press Release

EKK Infrastructure Limited (EIL)

August 29, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities - Term Loan (GECL)	29.21	IVR A-/Stable (IVR single A Minus with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Upgraded	Simple
Long Term Fund Based Bank Facilities - Cash Credit	155.00	IVR A-/Stable (IVR single A Minus with Stable Outlook)	IVR BBB+/Stable (IVR Triple B Plus with Stable Outlook)	Upgraded	Simple
Short Term Facility Non-Fund Based - Bank Guarantee	604.78	IVR A2+ (IVR A Two Plus)	IVR A2 (IVR A Two)	Upgraded	Simple
Total	**Rs. 788.99 crore (Rupees Seven Hundred Eighty-Eight crore and Ninety-Nine Lakhs only**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has upgraded its rating assigned to the bank facilities of EKK Infrastructure Limited (EIL). The upgradation of the ratings takes into account the improvement in company's financial performance in FY23 (refers to period from April 1, 2022, to March 31, 2023) and FY24 (Provisional) (refers to period from April 1, 2023 to March 31, 2024). The ratings continue to factor in the established track record of operations, extensive experience of the promoters & management team, healthy order book position and projects in pipeline providing short to medium term revenue visibility, comfortable capital structure and debt protection metrics, and comfortable operating cycle. However, the rating strengths are partially offset by geographical concentration of order book, highly fragmented and competitive nature of the sector and susceptibility of operating margin to volatile input prices. The outlook is stable in view of extensive experience of the management and sustained improvement in company's financial performance.

Key Rating Sensitivities:

Upward Factors

- Sustained improvement in debt protection parameters while maintaining the profitability.
- Reduction in concentration risks

Downward Factors

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

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations:**

  EIL is engaged in civil construction for more than four decades. It 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 National Highway Authority of India (NHAI), Cochin International Airport Limited (CIAL), Kerala Public Works Department (KPWD) and World Bank Funded projects among others.

- **Experienced promoters & management team:**

  The business was started 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. 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.

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

  EIL has a strong unexecuted order book of Rs. 2,582 crore as on July 30, 2024 which is about 4 times of its FY23 revenue. Majority of the orders are expected to be completed during FY25 and FY26, 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.

- **Comfortable capital structure and debt protection metrics:**

  EIL's capital structure remained as on March 31, 2023 with overall gearing ratio at 0.90.. Debt protection parameters also remained comfortable with interest coverage ratio of 3.04x in FY23. The net worth of company stood at Rs 169.44 crore as on March 31, 2023 as against Rs 149.16 crore as on March 31, 2022. It further increased to stand at Rs. 203.53 crore as of March 31, 2024 (Prov.) Total Debt / GCA ratio was at 4.98 years as on March 31, 2023. 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.

- **Sustained improvement in revenue:**

  There has been a improvement in the performance of the Company in terms of growth in revenue from FY20 to FY23. The revenue had increased to Rs. 704.31 crore in FY23 (FY20: Rs. 455.74 Crore, FY21: Rs. 684.30 crore, FY22: Rs. 692.53 crore) with a CAGR growth of 16% from FY20 to FY23. Improvement in revenue is backed by increased orders coupled with execution. Revenue has further registered a growth of over 35% in FY24 (Prov.) to stand at Rs. 953.93 crore.

- **Comfortable operating Cycle:**

  Cash conversion cycle stood at (-38) days in FY23 and (-18) in FY24 (Prov.), which reflects less reliance on working capital debt. The average collection period is 14 - 30 days and average inventory holding period stands at 15 - 21 days during FY23 and FY24. The average creditors period stands at 73 days in FY23 and 63 days in FY24. The company can fund its working capital requirement on the back of favourable market demand.

Key Rating Weaknesses

- **Geographical concentration:**

  Over the years, the company has diversified to other states than Kerala. The income is concentrated in the states of Kerala (42.82%), Tamil Nadu (41.13%), Andhra Pradesh (15.77%) and Maharashtra (0.27%). The company has in the past also executed projects in Pondicherry, and Nepal. 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.

- **Highly fragmented and competitive nature of the sector:**

  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).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

EIL has adequate liquidity marked by moderate net cash accruals vis-a-vis its maturing debt obligations. The average cash credit utilisation for the last 12 months ended June 30, 2024, stood at 45% The current ratio stood at 1.76 times and 1.61 times as on 31st March 2023 and 31st March 2024 respectively. Further, the cash & cash equivalent stood at Rs 13.34 crore and Rs. 34.71 crore as on March 31, 2023 and March 31, 2024 respectively.

About the Company

EKK Infrastructure Limited (EIL) is a leading engineering, procurement and construction (EPC) based in Ernakulam, Kerala, which has completed a number of government projects, and commercial projects related to roads, bridges, airports and water irrigation system. The company was promoted by Mr. EKK Muhammed as EKK Infrastructure Private Limited in 2015 to take over the business of EKK & Co, a sole proprietorship firm set up in 1972. In 2018 the company went on to become EKK Infrastructure Limited.

Financials (Standalone): **(Rs. crore)**

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	704.31	953.93
EBITDA	50.03	88.76
PAT	20.46	41.43
Total Debt	152.60	174.67
Tangible Net Worth	169.44	203.53
EBITDA Margin (%)	7.10	9.30
PAT Margin (%)	2.86	4.29
Overall Gearing Ratio (x)	0.90	0.86

Interest Coverage (x)	2.45	3.06

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in in 2022-23
					Date (October 10, 2023)	Date (April 17, 2023)	Date (September 05, 2022)
1.	Long Term Fund Based Bank Facilities - Term Loan (GECL)	Long Term	29.21	IVR A-/Stable	IVR BBB+ /Stable	IVR BBB+ /Stable	IVR BBB+ /Stable
2.	Long Term Fund Based Bank Facilities - Cash Credit	Long Term	155.00	IVR A-/Stable	IVR BBB+ /Stable	IVR BBB+ /Stable	IVR BBB+ /Stable
3.	Short Term Facility Non-Fund Based - Bank Guarantee	Short Term	604.78	IVR A2+	IVR A2	IVR A2	IVR A2

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities - Term Loan (GECL)	-	-	-	July 8, 2028	29.21	IVR A-/Stable (IVR single A Minus with Stable Outlook)
Long Term Fund Based Bank Facilities - Cash Credit	-	-	-	-	155.00	IVR A-/Stable (IVR single A Minus with Stable Outlook)
Short Term Facility Non-Fund Based - Bank Guarantee	-	-	-	-	604.78	IVR A2+ (IVR A Two Plus)

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/len-EKK-aug24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Name of the Security		Detailed Explanation
	Financial Covenant	
	i.	
	ii.	
	Non-financial Covenant	
	i.	
	ii.	

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

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.