



Press Release

EKK Infrastructure Limited (EIL)

September 05, 2022

Ratings:

Instrument / Facility	Amount	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities - Term Loan (GECL)	32.28	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Long Term Fund Based Bank Facilities – Cash Credit	74.10	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Proposed Long Term Fund Based Bank Facilities	25.00	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Facility Non-Fund Based - Bank Guarantee	300.56	IVR A2 (IVR A Two)	Reaffirmed	Simple
Proposed Short Term Facility Non-Fund Based	50.00	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	481.94 (Rupees Four hundred eighty-one crore & ninety-four lakh only)			

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, average capital structure and debt protection metrics, y-o-y improvement in revenue, low counter-party credit risk, financial assistance in the form of mobilisation advance and comfortable operating cycle. However, the rating strengths are partially offset by geographical & client concentration of order book, 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:

- Sustained improvement in 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 has formed 50% joint venture with GHV India Private Limited to execute major projects.

Experienced promoters & management team

Company 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. 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.

Strong order books position and projects in pipeline providing short to medium term revenue visibility

The company has a strong unexecuted order book of Rs 1549 crore as on 31 July 2022 which is about 2 times of its FY22(Prov) revenue. Majority of the orders are expected to be completed



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by FY24, 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.

Average capital structure and debt protection metrics:

Company's capital structure remained average as on FY22 (Prov). The overall gearing ratio remained at 0.98 in FY22(Prov). Debt protection parameters also remained average with interest coverage ratio of 2.28x in FY22(Prov) and 2.01x in FY21. The net worth of company stood at Rs 148.66 crore as on 31 March 2022 as against Rs 120.32 crore as on 31 March 2021. Total debt decreased to Rs 145.61 Crore in FY22(Prov) from Rs 181.44 Crore in FY21. Total Debt / GCA ratio was at 5.08 times in FY22(Prov). 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.

Y-o-Y improvement in revenue:

There has been an improvement in the performance of the company in terms of growth in revenue from FY18 to FY22(Prov). The revenue had increased to Rs. 871.85 crore in FY22(Prov) (FY18: Rs. 289.35 Crore, FY19 Rs.413.30 Crore, FY20: Rs. 455.74 Crore, FY21: Rs.656 crore) with a CAGR growth of 44.43% from FY18 to FY22(Prov). Improvement in revenue is backed by increased orders coupled with execution.

Low counter-party credit risk:

Most of the EIL projects are from Central Government and State 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 guarantees amounting to Rs. 300.56 crores (SBI – Rs. 185.70 crore, Indian Bank – Rs. 46.00 crore, Union bank of India Rs. 25.86 crore, Federal Bank Rs. 40.00 crore & HDFC Bank – Rs. 3.00 crore)



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Comfortable operating Cycle

Cash conversion cycle stood at 15 days in FY22(Prov.) which reflects less reliance on working capital debt. The average collection period is 11 days and average inventory holding period stands at 61 days in FY22(Prov). The average creditors period stands at 57 days in FY22(Prov) as against 61 days in FY21. The company can fund its working capital requirement on the back of favourable market demand.

Key Rating Weaknesses:

Geographical & Client concentration of order book

The Income is concentrated in the states of Kerala (45.79%), Pondicherry (33.86%), Tamil Nadu (10.35%) and Nepal (9.98%). The unexecuted order book remained concentrated with 47.97% from Tamil Nadu, followed by 33.24% from Andhra Pradesh, 13.36% from Kerala, 5.42% from Nepal. The unexecuted order book is Client concentrated with 61.00% from NHAI, 15.04 % from CKKIC, 3.55% from KIIFB, 9.68% from MoRTH, 5.42% from DoLIDAR (Nepal), and 5.29% from KSTP. 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 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.

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



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Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity – Adequate

Company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. Also, the firm do not have any major long-term repayment obligations and major capex plans. The average cash credit utilisation for the last 12 months ended June 31, 2022, stood at 86.77% and average consolidated bank guarantee utilisation for the last 12 months ended June 31, 2022, stood at 55.85%. The current ratio stood at 1.47 times as on 31st March 2022. The cash & cash equivalent stood at Rs 26.56 crore as on March 31, 2022.

About the Company

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

Financials: Standalone

(Rs. crore)

For the year ended/* As On	31-03-2020	31-03-2021	31-03-2022
	Audited	Audited	Provisional
Total Operating Income	455.74	656.35	871.85
EBITDA	36.72	58.66	52.43
PAT	2.99	17.08	19.72
Total Debt	168.45	181.44	145.61
Tangible Net-worth	96.78	120.32	148.66
Ratios			
EBITDA Margin (%)	8.06	8.94	6.01
PAT Margin (%)	0.65	2.58	2.24
Overall Gearing Ratio (x)	1.74	1.51	0.98

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (July 06, 2021)	Date(s) & Rating(s) assigned in 2020-21 (April 07, 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Bank Facilities - Term Loan (GECL)	Long Term	32.28	IVR BBB+/Stable	IVR BBB+/Stable	-	-
2.	Long Term Fund Based Bank Facilities - Cash Credit	Long Term	74.10	IVR BBB+/Stable	IVR BBB+/Stable	IVR BBB+/Stable	-
3.	Proposed Long Term Fund Based Bank Facilities	Long Term	25.00	IVR BBB+/Stable	-	-	-
4.	Short Term Facility Non-Fund Based - Bank Guarantee	Short Term	300.56	IVR A2	IVR A2	IVR A2	-
5.	Proposed Short Term Facility Non-Fund Based	Short Term	50.00	IVR A2	-	-	-

Name and Contact Details of the Rating Team:

Name: Mr. Niket Ketan Dasani
Tel.: (022) 6239 6023
Email: niket.dasani@infomerics.com

Name: Niriksha Gupta
Tel.: (022) 6239 6023
Email: niriksha.gupta@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).



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Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com.

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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 Fund Based Bank Facilities - Term Loan (GECL)	-	-	Up to May 2028	32.28	IVR BBB+/ Stable
Long Term Fund Based Bank Facilities – Cash Credit	-	-	-	74.10	IVR BBB+/ Stable
Proposed Long Term Fund Based Bank Facilities	-	-	-	25.00	IVR BBB+/ Stable
Short Term Facility Non-Fund Based - Bank Guarantee	-	-	-	300.56	IVR A2
Proposed Short Term Facility Non-Fund Based	-	-	-	50.00	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Len-EKK-Infrastructure-sep22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.