



Press Release

EKK Infrastructure Limited (EIL)

October 10, 2023

Ratings:

Instrument / Facility	Amount (Rs crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities - Term Loan (GECL)	26.10 (Decreased from 30.07)	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Long Term Fund Based Bank Facilities – Cash Credit	155.00 (Increased from 83.78)	IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Facility Non-Fund Based - Bank Guarantee	514.68 (Increased from 330.56)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Total	695.78			

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 concentration, 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 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 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.



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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 3243.21 crore as on 31 August 2023 which is about 5 times of its FY23 revenue. Majority of the orders are expected to be completed by 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. 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 FY23. The overall gearing ratio remained at 0.90 in FY23. Debt protection parameters also remained average with interest coverage ratio of 3.04x in FY3. The net worth of company stood at Rs 169.44 crore as on 31 March 2023 as against Rs 149.16 crore as on 31 March 2022. Total Debt / GCA ratio was at 4.98 years in FY23. 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 a improvement in the performance of the Company in terms of growth in revenue from FY18 to FY23. The revenue had increased to Rs. 704.31 crore in FY23 (FY21: Rs. 684.30 Crore, FY22: Rs.692.53 crore) with a CAGR growth of 24% from FY20 to FY23. 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



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Rs. 514.68 crores (SBI – Rs. 315.70 crore, Indian Bank – Rs. 8.42 crore, Union bank of India Rs. 57.36 crore, Federal Bank Rs. 95.70 crore & HDFC Bank – Rs. 37.50 crore)

Comfortable operating Cycle:

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

Key Rating Weaknesses:

Geographical concentration risk

The Income is concentrated in the states of Kerala (22.43%), Pondicherry (0.71%), Tamil Nadu (47.09%), Andhra Pradesh (18.12%) and Nepal (11.64%). 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.



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Analytical Approach: Standalone

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 July 31, 2023, stood at 68% and average consolidated bank guarantee utilisation for the last 12 months ended July 31, 2022, stood at 66%. The current ratio stood at 1.76 times as on 31st March 2023. The cash & cash equivalent stood at Rs 13.34 crore as on March 31, 2023.

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	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	692.53	704.31
EBITDA	52.07	50.03
PAT	19.68	20.45
Total Debt	145.61	152.60
Tangible Net-worth	149.16	169.44
Ratios		
EBITDA Margin (%)	7.52	7.10
PAT Margin (%)	2.81	2.86
Overall Gearing Ratio (x)	0.98	0.90

*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 2023-24)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (April 17, 2023)	Date(s) & Rating(s) assigned in 2022-23 (Sep 05, 2022)	Date(s) & Rating(s) assigned in 2021-22 (July 06, 2021)
1.	Long Term Fund Based Bank Facilities - Term Loan (GECL)	Long Term	26.10	IVR BBB+/Stable	IVR BBB+/Stable	IVR BBB+/Stable	IVR BBB+/Stable
2.	Long Term Fund Based Bank Facilities – Cash Credit	Long Term	155.00	IVR BBB+/Stable	IVR BBB+/Stable	IVR BBB+/Stable	IVR BBB+/Stable
3.	Proposed Long Term Fund Based Bank Facilities	Long Term	15.00	-	IVR BBB+/Stable	IVR BBB+/Stable	-
4.	Short Term Facility Non-Fund Based - Bank Guarantee	Short Term	514.68	IVR A2	IVR A2	IVR A2	IVR A2
5.	Proposed Short Term Facility Non-Fund Based	Short Term	20.00	-	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 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	26.10	IVR BBB+/ Stable
Long Term Fund Based Bank Facilities – Cash Credit	-	-	-	155.00	IVR BBB+/ Stable
Short Term Facility Non-Fund Based - Bank Guarantee	-	-	-	514.68	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-oct23.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.