Essar Constructions India Ltd.

February 14, 2024

Ratings:

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	0.50	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed and Outlook revised	Simple
Short Term Bank Facilities	22.00	IVR A3 (IVR A Three)	Reaffirmed	Simple
Proposed Short Term Bank Facilities	127.50	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	**150.00 (Rupees One hundred and fifty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The revision in outlook from Positive to Stable reflects moderate scale of operations though expected to grow in the medium term.

The ratings of the bank facilities of Essar Constructions India Ltd. (ECIL) continue to derive strength from strong promoter group with established presence in the construction segment, healthy order book reflecting satisfactory medium-term revenue visibility and improved TOL/TNW with comfortable debt protection metrics. These rating strengths, however, remain constrained by elongated receivables, contract execution risk, and highly fragmented and competitive nature of the construction sector with significant price war and limited price flexibility.

Key Rating Sensitivities

Upward Factors

- Growth in scale of operations with improvement in profitability on a sustained basis.
- Effective working capital management with improvement in liquidity position.

Downward Factors

- Delay in order execution
- Sharp adverse changes in leverage and TOL/TNW, on a sustained basis.

- Moderation in scale of operations or profitability impacting the liquidity profile.
- Elongation of operating cycle impacting liquidity

List of Key Rating Drivers with Detailed Description:

Key Rating Strengths:

Strong promoter group with established presence in construction sector

Essar group is a well-established, diversified industrial conglomerate in the energy, infrastructure & logistics, metals & mining and real estate space. Essar Projects represents the EPC arm of the Essar group. Essar Projects has various operating companies established across geographies. ECIL is the Indian arm to consolidate and pursue EPC business interests in the Indian subcontinent. ECIL benefits from experience of its qualified promoters, strong and competent management, reflecting the expertise in its execution capabilities in their key businesses. Over the past years, the group has successfully completed many projects and ensured timely completion of its projects.

Healthy order book reflecting satisfactory medium-term revenue visibility

ECIL has a healthy order book position of Rs. ~1100 crores as on December 31, 2023, which is about ~5 times of its FY23 revenues (i.e., Rs.201.63 crore). The orders are expected to be completed within next two to three years, indicating a satisfactory medium-term revenue visibility.

Improved TOL/TNW with comfortable debt protection metrics

ECIL has no external long-term debts on its books as of March 31, 2023, except inter corporate loan of Rs.0.60 crores. The total indebtedness as reflected by the Total outside liabilities to Tangible Networth improved to 2.90x as on March 31, 2023, as against 4.75x as on March 31,2022. Total outside liabilities primarily include mobilization and other project advances availed and trade payables. As per 9M ended December 31, 2023, unaudited financials, the total debt has increased to Rs.30.74 crores. Accordingly, overall gearing ratio stood at 0.70x and TOL/TNW continued at similar levels at 2.97x as on December 31, 2023. Debt protection metrics remained comfortable with interest coverage at 10x IN FY23 and 6.69xfor 9MFY24.

Key Rating Weaknesses:

Moderate scale of operations

ECIL began its operations in 2018. It was not able to scale up operations in FY20 and FY21 because of the slowdown in the economy due to the Covid-19 pandemic. However, in FY22 the total operating income of the company improved substantially to Rs.270.57 crore from Rs.32.30 crore in FY21. In FY23, the company has achieved revenues of Rs.201.63 crores, lower than FY22 due to delays in design approvals in certain projects. EBITDA margins increased to 8.02% in FY23 from 5.52% in FY22, due to a reduced reliance on subcontractors and an increased proportion of design component in the execution carried out in FY23. In 9MFY24 (Unaudited) the company has achieved revenues of Rs.155.78 crores and EBITDA margin of 8.97%. Going forward, the company's ability to scale up its operations and profitability in a sustained manner is a rating sensitivity factor.

Elongated receivables impacting cash flows

The company had total receivables to the tune of Rs.39.69 crores as on November 30, 2022, of which Rs.13 crores were stuck more than 365 days. Majority of the receivables greater than 365 days were from Mesabi Metallics Company LLC (MMCL). ECIL received payment from MMCL to the tune of USD 2 million on March 14, 2023, hence the receivable position improved, thereby improving cash flows of the company. As on March 31, 2023, almost 73% of the receivables were outstanding for less than 180 days and receivables outstanding greater than 365 days has reduced considerably to Rs.1.79 crores (PY: Rs.11.45 crores). The company's ability to recover dues on a sustained basis remains a rating sensitivity factor.

Contract execution risk

The company is exposed to project execution risk of the pending order book, owing to the uncertainties in the EPC business. Further, the company had faced headwinds for execution of its projects due to severe monsoon at sites and local disturbances. These impediments have been resolved with the help of local government authorities and client liasoning and the projects are progressing smoothly at all the sites as confirmed by the management. The ability of the company to execute the projects without delay would be a key rating monitorable.

Tender driven nature of business in highly fragmented & competitive construction sector

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the company's ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented marked by 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.

Analytical Approach: Standalone

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Default Recognition

Liquidity – Adequate

The company has earned a GCA of Rs.13.14 crores as on March 31, 2023, and the same is expected to increase with increase in scale of operations. ECIL does not have any repayment obligations in FY24 and FY25 The company's total borrowings stood at ~Rs.30 crores as of December 31, 2023, providing sufficient headroom to borrow further. However, with increase in scale of operations the working capital requirements of the company is expected to increase. The company has cash and cash equivalent of Rs.0.31 crores as of December 31, 2023.

About the company

ECIL was incorporated in May 2017 as an Indian arm of Essar Projects to consolidate and pursue EPC business interests in the Indian subcontinent. ECIL is 98% held by Essar Projects Mauritius Ltd and 2% by Essar Projects, UAE. It is primarily engaged in construction projects and contracting / subcontracting of industrial projects and providing post commissioning assistance.

Financials (Standalone basis):

(Rs. crore)

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	270.57	201.63
EBITDA	14.94	16.17
PAT	9.82	10.85
Total Debt	0.83	0.60
Tangible Net Worth	17.95	44.56
Ratios		
EBITDA Margin (%)	5.52	8.02
PAT Margin (%)	3.62	5.32
Overall Gearing Ratio (x)	0.05	0.01

**As per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Not Appliable

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	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	0.50	IVR BBB-/ Stable	**March 29, 2023** IVR BBB-/ Positive	-	-
2.	Bank Guarantee	Short Term	22.00	IVR A3	**March 29, 2023** IVR A3	-	-
3.	Proposed Bank Guarantee/ Letter of Credit	Short Term	127.50	IVR A3	**March 29, 2023** IVR A3	-	-

Name and Contact Details of the Rating Team:

Name: Neha Khan Tel.: (022) 6239 6023 Email: neha.khan@infomerics.com	Name: Amod Khanorkar Tel.: (022) 6239 6023 Email: amod.khanorkar@infomerics.com

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).

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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
Cash Credit	-	-	-	0.50	IVR BBB-/ Stable
Bank Guarantee	-	-	-	22.00	IVR A3
Proposed Bank Guarantee/ Letter of Credit	-	-	-	127.50	IVR A3

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

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-Essar-Constructions-feb24.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.