Essar Constructions India Ltd.

March 29, 2023

Ratings:

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	[Complexity Indicator]
Long Term Bank Facilities	0.50	IVR BBB- / Positive (IVR Triple B Minus with Positive Outlook)	Assigned	Simple
Short Term Bank Facilities (Including proposed facility of Rs.127.50 crores)	149.50	IVR A3 (IVR A Three)	Assigned	Simple
Total	**150.00 (Rupees One hundred and fifty crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The rating assigned to the bank facilities of Essar Constructions India Ltd. (ECIL) derives strength from strong promoter group with established presence in the construction segment, healthy order book reflecting satisfactory medium-term revenue visibility, and improved scale of operation in FY22. These rating strengths, however, remain constrained by high TOL/TNW, elongated receivables, contract execution risk, and highly fragmented and competitive nature of the construction sector with significant price war and limited price flexibility. The positive outlook reflects the expected ramping up of scale of operations in the medium term leading to overall improvement in the credit profile.

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. ~1909 crores as on December 31, 2022, which is about 7 times of its FY22 revenues (i.e., Rs.270.57 crore). The orders are expected to be completed within next two to three years, indicating a satisfactory medium-term revenue visibility.

Improved scale of operations in FY22

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. The company has achieved revenues of Rs.126.46 crores for 9 months ended December 31, 2022. The company's EBITDA margins are moderate at 5.52% in FY22. Going forward, the company’s ability to scale up its operations and profitability in a sustained manner is a rating sensitivity factor.

Key Rating Weaknesses:

High TOL/TNW

ECIL has no external long-term debts on its books as of March 31, 2022. However, the total indebtedness as reflected by the TOL/TNW increased from 2.10x to 4.75x as on March 31,2022 due to scaling up of operations in FY22. The TOL/TNW is likely to remain at elevated levels in the near to medium term.

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). As per recent developments, ECIL received payment from MMCL to the tune of USD 2 million on March 14, 2023, hence the receivable position has improved, thereby improving cash flows of the company. 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.11.4 crores as on March 31, 2022, and the same is expected to increase with increase in scale of operations. The company maintained a cash & balance of Rs.6.26 Crore as on March 31, 2022. Further, with no external bank borrowings as of March 31, 2022, the company has sufficient gearing headroom. However, with increase in scale of operations the working capital requirements of the company is expected to increase.

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*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	32.30	270.57
EBITDA	2.89	14.94
PAT	2.60	9.82
Total Debt	0.99	0.83
Tangible Net Worth	9.51	17.95
Ratios		
EBITDA Margin (%)	8.95	5.52
PAT Margin (%)	7.72	3.62
Overall Gearing Ratio (x)	0.10	0.05

**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-/ Positive	-	-	-
2.	Bank Guarantee	Short Term	22.00	IVR A3	-	-	-
3.	Proposed Bank Guarantee/ Letter of Credit	Short Term	127.50	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (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).

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 facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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-/ Positive
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/Lenders-ECIL.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.