Press Release

Essar Constructions India Limited (ECIL)

March 01, 2024

Ratings:

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Long Term Bank Facilities	0.50	IVR BBB- / Stable and withdrawn (IVR Triple B Minus with Stable Outlook and withdrawn)	Reaffirmed and withdrawn	Simple
Short Term Bank Facilities	22.00	IVR A3 and withdrawn. (IVR A Three and withdrawn)	Reaffirmed and withdrawn	Simple
Proposed Short Term Bank Facilities	127.50	IVR A3 and withdrawn. (IVR A Three and withdrawn)	Reaffirmed and withdrawn	Simple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

Details of Facilities are in Annexure 1

Detailed Rationale:

Infomerics has reaffirmed the ratings assigned to the bank facilities of Essar Constructions India Limited (ECIL) at IVR BBB-/Stable/IVR A3 and simultaneously withdrawn the ratings with immediate effect. The withdrawal of rating has been made at the request of ECIL and 'No Objection Certificate' received from the banker. The rating is withdrawn in accordance with Infomerics 'Policy on Withdrawal of Ratings'.

The reaffirmation continues to factor in strengths as a result of 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, highly fragmented and competitive nature of the construction sector with limited pricing 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, which may adversely impact the financial risk profile.
- Sharp adverse changes in leverage and TOL/TNW, on a sustained basis.

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 in a timely manner.

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 9 months 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 6.69x for 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 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 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, in the past, company 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 viewed negatively.

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

Policy on withdrawal

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. 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 2023-24)			Date(s) & Rating(s) assigned in 2023-24	Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating		Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based Facilities – Cash Credit	Long Term	0.50	IVR BBB- / Stable and withdrawn	**(February 14,2024)** IVR BBB-/ Stable	**(March 29, 2023)** IVR BBB- / Positive	-	-
2.	Non-Fund Based Facilities - Bank Guarantee	Short Term	22.00	IVR A3 and withdrawn	**(February 14,2024)** IVR A3	**(March 29, 2023)** IVR A3	-	-
3.	Proposed Non-Fund Based Facility - LC/BG	Short Term	127.50	IVR A3 and withdrawn	**(February 14,2024)** IVR A3	**(March 29, 2023)** IVR A3	-	-

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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

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 Facility – Cash Credit	-	-	-	0.50	IVR BBB-/ Stable and withdrawn
Short Term Non- Fund Based Facility -Bank Guarantee	-	-	-	22.00	IVR A3 and withdrawn
Proposed Short Term Non-Fund Based Facility – LC/BG	-	-	-	127.50	IVR A3 and withdrawn

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-mar24.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.