**Press Release**

**Inkel Limited**

**December 08, 2022**

**Rating Assigned**

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---|---|---|
| **Fixed Deposits (FD)** | 40.00 | ACUITE BB \| Stable \| Assigned | - |
| **Bank Loan Ratings** | 51.30 | - | ACUITE A4+ \| Assigned |
| **Total Outstanding Quantum (Rs. Cr)** | 91.30 | - | - |
| **Total Withdrawn Quantum (Rs. Cr)** | 0.00 | - | - |

## Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB' (read as ACUITE double B)** on the Rs. 40.00 Cr proposed fixed deposit programme and short term rating of '**ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 51.30 Cr bank facilities of Inkel Limited.
The outook is **'stable'**

### Rationale for assignment

The rating takes into account the strong management and revenue stability of the group marked by consistent income in the form PMC fees and annuity. Further, the rating also factors the diversification in revenue going forward since the group intends to diversify into the EPC segment with an order book of ~Rs. 200 Cr as on September 2022. In addition, the group plans to commence the commissioning of14 mega-watt (MW) wind power plant by FY2024. However, the rating remains constrained due to substantial execution and funding risk on the power projects, the limited past track record of support from the Government of Kerala given the instance of delayed payment of debt obligation. In addition, the working capital cycle also remains stretched marked by GCA days of 636 in FY2022.

## About the Company

Inkel is PPP (Public-Private-Partnership) initiative of Government of Kerala (GoK) to encourage NRI (Non-resident Indian) investments in Infrastructure. The government along with State owned companies holds 29.6 percent in in the company. Further, the board consists of Mr. P Rajeeve as Chairman - Minister for Industries, Law and Coir in the Govt. of Kerala, Dr. Kamalakannan Ellangovan as Managing Director - Former Additional Chief Secretary, Department of Industries & NORKA, Government of Kerala and Mr. Suman Billa - Principal Secretary, Department of Industries & NORKA, Government of Kerala.

The company provides holistic consultancy services as a Project Management Consultant (PMC) for Infrastructure projects Inkel's major source of revenue of is centage fees which is 3-7 percent the project cost. The company has been diversifying profit-earning streams from predominantly PMC to EPC contractor. Further, the company intends to to set up wind power plant of 14 MGW with total project cost of Rs. 98.00 Cr. Additinally, the company earns Initial lease premium and operating lease through subleasing land leased from Inkel KSIDC.

## Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Inkel Limited and has also factored in support extended by Government of Kerala (GoK) given the latter's 29.60 percent ownership of Inkel Limited.

| Name of the company | Relationship |
|---|---|
| INKEL KSIDC Projects Limited | Subsidiary Company |
| INKES Trade Centre Limited | Subsidiary Company |
| Inkel Infrastructure Development Projects Limited | Subsidiary Company |
| INKEL- EKK Roads Private Limited | Subsidiary Company |
| SEGURO - INKEL Consortium LLP | Subsidiary Company |
| MIV Logistics Private Limited | Associate Company |

**Extent of the Consolidation** : Full

## Key Rating Drivers

### Strengths

- **Experienced management and GoK holding:**

Inkel is PPP (Public-Private-Partnership) initiative of Government of Kerala (GoK) to encourage NRI (Non-resident Indian) investments in Infrastructure. The government along with State owned companies holds 29.6 percent in in the company. Dr. Kamalakannan Ellangovan - Managing Director, manages the company. Dr. K. Ellangovan is a medical doctor by training, got into Indian Administrative Services from Kerala Cadre in 1992. He has served as Chairman of Kerala State Electricity Board Ltd, Managing Director of Kerafed, Kerala Tourism Development Corporation, Executive Director of Council for Leather Exports (Ministry of Commerce) Govt. of India and Deputy Chairman in Chennai Port Trust (Ministry of Shipping).

Inkel Limited is an accredited agency with the Government of Kerala and is currently implementing many major projects such as hospitals, schools, treasury buildings and heritage and tourism projects as a Special Purpose Vehicle (SPV) / Project Management Consultant (PMC). Solar and wind projects The remaining quantum of AS is under various stages of processing in KIIFB or other financial institutions. There about ~150 projects under Inkel's implementation.

- **Revenue diversification and healthy order book:**

The group intends to diversify further from a PMC to an EPC contractor towards renewable supplies and commissioning, construction of roads, bridges etc. The company has an aggregate solar EPC order book of Rs. 175 Cr and expects Rs. 62 Cr of additional orders. The group has project construction orders of ~Rs. 20 Cr. In addition, the group presently earns annuity through its road projects under Inkel EKK, centage fees of 3-7% of project cost under PMC service provision and lease premium and operating income by way of subleasing land. The revenue in FY2022 accounted for Rs. 92 Cr, of which lease premium accounted for 22 percent, annuity – 28 percent, Solar EPC – 40 percent and centage fees – 10 percent. However, the group has limited experience in executing EPC projects, the ability of the group to profitably diversify into other business will remain a key rating sensitivity.

## Weaknesses

**• Moderate standalone financial risk profile:**

The financial risk profile is comfortable marked by moderate net worth, moderate debt and low coverage indicators. The group follows a conservative leverage policy marked by debt to equity of 0.62 times as on March 31, 2022. The networth and debt stood at Rs. 238.65 Cr and 148.96 Cr as on March 31, 2022 respectively. However, the coverage indicators in FY2022 are low, marked by interest coverage ratio (ICR) and debt service coverage ratio (DSCR) of 2.19 times and 0.96 times in FY2022 respectively. Further, Inkel has substantial exposure to its subsidiaries and other group companies by way of corporate guarantees of Rs. 285 Cr as on March 31, 2022.
However, going forward the coverage indicators are expected to remain adequate on the back healthy revenue in FY2023, also the company shall curtail issuing corporate guarantees in favour of group entities.

**•Project implementation risk:**

The group intends to set up a 14 MGW wind power plant with an aggregate project cost of Rs. 98 Cr. The project is proposed to be funded through debt and equity in the ratio of 70:30 and is expected to commence in FY2024 with proposed completion in FY2025. The company shall sign the PPA by Mar/April 2023. Significant funding and execution risk persists since the project is yet to commence commissioning. However, demand risk shall be mitigated once the PPA has been signed with KSEBL.
Acuite believes timely completion of projects without significant time and cost overruns will remain a key sensitivity.

**• Limited support from Govt of Kerala and past instances of delay in debt servicing debt obligations/guarantees:**

GoK holds 29.6 percent stake in the company, however, no active support has been extended by the State despite delays in payment of dues/ guarantee amount by Inkel Limited. The company holds 80.25 percent stake in Seguro Inkel Consortium LLP (SICL) and had extended corporate guarantee. In FY2020, Seguro-Inkel had defaulted in their repayment obligations, as a result the lender invoked the corporate guarantee, the subsequent non-payment of dues/ guarantee amount by Inkel Limited resulted into default. Nonetheless, Inkel Limited had finally cleared all the dues against the invocation in July 2022. Additionally, the strategic importance of the group to the state is marginal. Acuite however factors the presence of strong management team on the board.

## Rating Sensitivities

- Sustained improvement in revenue and profitability by way of diversifying into other segments.
- Improving the liquidity profile by reducing the aggregate receivables.
- Limiting exposure in group companies thereby ensuring stability in the financial risk profile.

## Material covenants

None.

## Liquidity: Stretched

The liquidity of the company is stretched marked by working capital intensive nature of operations with GCA days of 636 in FY2022, however, despite high GCA days the WC cycle days are negative considering creditor days of 359, also the company has availed no funding limits from banks. The liquidity pressures faced by the company can be marked by substantial delays in the payment of creditors thereby increasing the creditor days.

Nonetheless, the net cash accruals of Inkel stood at Rs. 11.36 Cr against repayment obligations of Rs. 4.03 Cr in FY2022. Further, the company has unencumbered cash and bank balance of rs. 87.69 Cr as on March 31, 2022. Going forward the cash accruals are expected to be Rs. 34 Cr and Rs. 27 Cr against repayment obligation of Rs. 14 Cr and Rs. 15 Cr in FY2023 and FY2024 respectively.

## Outlook: Stable

Acuité believes that the group will continue to maintain a 'Stable' outlook owing to its consistent revenue, strong management and healthy order book. The outlook may be revised to 'Positive' in case the group achieves increased revenues and profitability through efficient operational diversification along with improving the liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the and liquidity position, increased exposure in group companies adversely impacting financial risk profile.

## Other Factors affecting Rating

None

## Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|---|---|---|---|
| Operating Income | Rs. Cr. | 92.93 | 112.56 |
| PAT | Rs. Cr. | 8.88 | 30.32 |
| PAT Margin | (%) | 9.55 | 26.93 |
| Total Debt/Tangible Net Worth | Times | 0.62 | 0.76 |
| PBDIT/Interest | Times | 2.19 | 2.92 |

## Status of non-cooperation with previous CRA (if applicable)

Care vide its press release dated 23.08.2021 reaffirmed Inkel Ltd to Care C/A4 INC

## Any other information

None.

## Applicable Criteria

- Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
- Infrastructure Sector: https://www.acuite.in/view-rating-criteria-51.htm
- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
- Group And Parent Support: https://www.acuite.in/view-rating-criteria-47.htm

## Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in.**

## Rating History:

None

## Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|---|---|---|---|---|---|---|---|---|
| State Bank of India | Not Applicable | Bank Guarantee (BLR) | Not Applicable | Not Applicable | Not Applicable | Simple | 51.30 | ACUITE A4+ \| Assigned |
| Not Applicable | Not Applicable | Proposed Fixed Deposit Program | Not Applicable | Not Applicable | Not Applicable | Simple | 40.00 | ACUITE BB \| Stable \| Assigned |

## Contacts

| Analytical | Rating Desk |
|---|---|
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**About Acuité Ratings & Research**

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.