

## Press Release

**E TO E TRANSPORTATION INFRASTRUCTURE PRIVATE LIMITED**

**November 02, 2023**

**Rating Assigned**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	48.00	ACUITE BBB-   Stable   Assigned	-
Bank Loan Ratings	22.00	-	ACUITE A3   Assigned
Total Outstanding Quantum (Rs. Cr)	70.00	-	-

## Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 70.00 Cr bank facilities of E To E Transportation Infrastructure Private Limited (ETETIPL). The outlook is '**Stable**'.

## Rating Rationale

The rating assigned considers the long operational track record of the company of more than a decade in the railway infrastructure segment, which has in turn supported ETETIPL in establishing strong relationships with reputed clients in the domestic market, leading to recurring orders, coupled with government thrust in the railway infrastructure segment. The rating also favourably factors in the steady business risk profile of the company marked by improved scale of operations and profitability margins in FY23. The rating also factors in the comfortable order book with an unexecuted order in hand of Rs.271. 22 Cr as on August 2023, which shall be executed in next 3-14 months, thus providing comfortable revenue visibility in the near to medium term. Further, the stabilisation of the SCM segment would further improve the scale of operations in the near to medium term. Additionally, the company has an above average financial risk profile marked by comfortable capital structure (D/E: 0.79 times as on 31st March 2023). The rating also considers the adequate liquidity position of the company marked by moderate utilization in the fund-based limits at ~86 per cent for the last six months ended August 2023, however, the NFB limit remained highly utilized at ~94 per cent during the period due to the inherent nature of the business. Acuite notes that the company has recently got a sanction of Letter of Credit limits (CC, BG being the sublimit) in September'23 from RBL bank, which will further add to the liquidity. Acuite also notes that the company along with one of its JV has participated in a tender through "bid bonds" instead of EMD. Acuite derives comfort from the fact that the company is exploring new substitutes to high EMD and BG margin, the bid bonds will only require a miniscule percentage (~3% of the bond value) as a premium amount, thus providing additional support to the liquidity.

These strengths are partly offset by the working capital-intensive nature of operations of the company marked by GCA days of 282 days in FY23 as against 295 days in FY22. Acuite notes that the major orders concentrated towards the end of every fiscal elevates the debtor's period and the high amount of deposits kept with the tendering authorities further elevates the working capital indicators. The rating also remains constrained to an extent by the fact that the company is managed by Venture Capitalists, not having enough skin in the game. The rating further remains constrained by the competitive and fragmented nature of industry with tender based business, cyclicity in the domestic capex cycle and any economic slowdown.

## About the Company

Incorporated in 2010, E To E Transportation Infrastructure Private Limited (ETETIPL), is engaged in the procurement and supply of track lining, signalling and electrification equipments related to rail transport. The company also provides services which includes design, installation, testing, commissioning and system integration relating to signalling and telecommunication, track, overhead electrification, etc for railways. Its major business segments include turnkey EPC projects, manpower deployment and training and project maintenance services. The company ventured into a new business segment – supply chain management from FY2023 onwards. The company is primarily owned and controlled by two private equity funds – VenturEast (shareholding of 56.5% as on March 31, 2023) and Zephyr Peacock India (shareholding of 39.5% as on March 31, 2023).

## Unsupported Rating

Not Applicable

## Analytical Approach

Acuite has considered the standalone business and financial risk profile of ETETIPL to arrive at the rating.

## Key Rating Drivers

### Strengths

#### **Established relationship with reputed clientele supported by the long operational track record**

The company has a long operational track record of more than a decade in delivering railway projects and services. ETETIPL has built a track record of delivering solutions in Designing & Engineering, Installation, Testing & Commissioning, O&M services for Signalling & Telecom, Over Head Electrification and Track. The company's clientele includes Indian Railways and reputed players in the railway infrastructure sector such as RITES Limited and prominent players in private sector like Alstom, Siemens, among others, thereby mitigating the counterparty risk to some extent.

Acuite believes that the long operational track record and reputed client base shall support the business risk profile of the company to an extent.

#### **Steady business risk profile marked by healthy order book position**

The company reported healthy growth in revenues to Rs.129.90 Cr in FY23 as against Rs.73.51 Cr in FY22, thereby registering an y-o-y growth of 76.70 per cent. The operating income is supported by the comfortable order book position and the timely execution of it by the company. ETETIPL has an unexecuted order book position to the tune of Rs. 271.22 Cr as on 31st August, 2023 which shall be executed in next 3-14 months, thus providing comfortable revenue visibility in the near to medium term. Further, the company has recently ventured into a new business vertical – Supply Chain Management (SCM) - wherein it will be providing a full bouquet of all rail products and services. The company's scale of operation is expected to scale up over the medium term with the stabilisation in the SCM segment. Though, the company has registered a revenue of Rs.31.00 Cr in Apr'23-Aug'23, the company's majority of the revenue is skewed towards the last quarter.

The operating margin of the company improved to 11.02 per cent in FY2023 as compared to 8.30 per cent in FY2022. The PAT margin stood at 5.81 per cent in FY2023 as compared to 5.01 per cent in FY2022. High profitability has translated into strong RoCE levels of around 17.46 per cent in FY2023 as against 9.82 per cent in FY22. Although the profit margins under the SCM segment are likely to be relatively lower, the limited working capital requirements for this segment are expected to facilitate the company's revenue to scale up, with no major incremental working capital borrowings.

Acuite derives comfort from the healthy revenue visibility over the medium term and believes that the company will continue to sustain its order book position and maintain its business risk profile over the medium term. Nonetheless, the smooth execution of the orders in hand without any delays will be a key monitorable.

## **Above average financial risk profile**

The company's financial risk profile is marked by comfortable net worth base, low gearing and comfortable debt protection metrics. The tangible net worth of the company increased to Rs.54.66 Cr as on March 31, 2023 from Rs.48.18 Cr as on March 31, 2022, due to accretion of profits to reserves. Though the gearing has increased, it still stood comfortable at 0.79 times as on March 31, 2023 as against 0.62 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.59 times as on March 31, 2023 as against 1.11 times as on March 31, 2022. Moreover, the comfortable debt protection metrics is marked by Interest Coverage Ratio of 3.10 times as on March 31, 2023 as against 3.44 times as on March 31, 2022; and Debt Service Coverage Ratio at 1.79 times as on March 31, 2023 as against 2.57 times as on March 31, 2022. The debt protection metrics have declined in FY2023 due to increased cost of borrowings on account of additional working capital term loan of Rs.11.80 Cr taken during the year. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.18 times as on March 31, 2023 as against 0.13 times as on March 31, 2022.

Acuité believes that going forward the financial risk profile of the company is likely to be sustained backed by steady accruals and no major debt funded capex plans.

## **Weaknesses**

### **Working capital intensive nature of operations**

The working capital management of the company has improved in FY23, although marked by high Gross Current Assets (GCA) of 282 days as on 31st March 2023 as compared to 295 days on 31st March 2022 with improvement in debtor collection. The debtor days improved to 92 days in FY2023 as against 157 days in FY2022. Besides, the majority of the orders is usually concentrated towards the end of every fiscal, with more than 50 per cent of the sales in Q4, resulting in elevated working capital indicators as on year ending dates. The substantial amount security deposits kept with the tendering authority and increase in the unbilled revenue to Rs.49.73 Cr in FY2023 (FY22: Rs.20.38 Cr), further augmented the GCA days.

However, the inventory days stood efficient at 2 days in FY2023, similar to FY2022. The company focuses on easy mobilization of its resources, thereby improving the turnaround time and reducing the idleness of machinery and equipment.

Acuité believes that the working capital operations of the company may continue to remain almost at the same levels as evident from the stretched collection mechanism and efficient inventory levels over the medium term.

Nonetheless, the company has substantial dependence on its suppliers and creditors to support the working capital; creditors stood high at 137 days as on March 31, 2023. Acuite believes sustained improvement in creditors will remain a key monitorable.

### **Competitive and fragmented nature of industry coupled with tender based business**

The company is engaged as a civil contractor and the particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts and hence the company has to make bid for such tenders on competitive prices, which may affect the profitability of the company. However, this risk is mitigated to an extent as the company is operating in this environment for the last twelve years.

## **Rating Sensitivities**

- Further elongation in the working capital cycle
- Reduction in order flow

## **All Covenants**

None.

## **Liquidity Position**

## **Adequate**

The company has an adequate liquidity position marked by Net Cash Accruals of Rs.7.68 Cr as on March 31, 2023 as against long term debt repayments of Rs.2.11 Cr over the same period. Further, the company is expected to generate sufficient net cash accruals to repay its debt obligation. The current ratio stood moderate at 1.62 times as on March 31, 2023. The fund-based bank limit remained moderately utilised at 86.29 per cent and the non-fund based facility remained highly utilised at 94.36 per cent for the last six months ended August 2023. Further, the company has got new sanction from a few NBFCs during the current fiscal and have also received RBL's sanction letter for LC amounting to Rs.15.00 Cr, where the company also enjoys enhanced working capital limit with Cash Credit being the sub limit of LC. These recent enhancements further add to the liquidity of the company in the near to medium term. However, the working capital-intensive management of the company is marked by Gross Current Assets (GCA) of 282 days as on March 31, 2023 as compared to 295 days as on March 31, 2023. Acuite also notes that the company along with one of its JV has participated in a tender through "bid bonds" instead of EMD. Acuite derives comfort from the fact that the company is exploring new substitutes to high EMD and BG margin, the bid bonds will only require a miniscule percentage (~3% of the bond value) as a premium amount. Acuite believes that the liquidity position of the company is likely to remain adequate backed by the steady accruals.

## **Outlook: Stable**

Acuite believes that the outlook on ETETIPL will remain 'Stable' over the medium term on account of its long operational track record, strong relationship with reputed customers, experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the company registers any significant improvement in its scale of operations or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

## **Other Factors affecting Rating**

None.

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	129.90	73.51
PAT	Rs. Cr.	7.54	3.68
PAT Margin	(%)	5.81	5.01
Total Debt/Tangible Net Worth	Times	0.79	0.62
PBDIT/Interest	Times	3.10	3.44

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

None

### 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>

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite 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](http://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
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	22.00	ACUITE A3   Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB-   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.41	ACUITE BBB-   Stable   Assigned
Bank of Baroda	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.59	ACUITE BBB-   Stable   Assigned
ICICI Bank Ltd	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	10.00	ACUITE BBB-   Stable   Assigned



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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.

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