Press Release

E To E Transportation Infra Structure Private Limited

August 19, 2024

Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	73.80	ACUITE BBB | Stable | Upgraded	-
Bank Loan Ratings	46.20	-	ACUITE A3+ | Upgraded
Total Outstanding Quantum (Rs. Cr)	120.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to **'ACUITE BBB' (read as ACUITE t riple B)** from **'ACUITE BBB-' (read as ACUITE t riple B minus)** and short-term rating to **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs. 120.00 crore bank facilities of E To E Transportation Infrastructure Private Limited (ETETIPL). The outlook is **'Stable'**.

Rationale for Rating Upgrade

The rating upgrade 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's 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 FY2024. The rating also factors in the opening order book position of Rs. 310 crore in FY2025 as against Rs. 135 crore in FY2024, which shall be executed in the next 12-24 months, thus providing revenue visibility in the short term. Further, the stabilization of the SCM (Supply Chain Management) 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 a comfortable capital structure (Debt/Equity: 0.93 times as on 31st March 2024). The rating also considers the adequate

liquidity position of the company marked by moderate utilization of the fund-based limits at 67.90 percent for the last twelve months ended June 2024, however, the non fund based limit remained highly utilized at 79.69 percent during the same period due to the inherent nature of the business.
Acuite also notes that the company's bidding capabilities have increased, allowing it to participate in single tenders for BOQ-based contracts, from Rs. 25 crore to Rs. 50 crore in EPC contracts and from Rs. 50 crore to Rs. 100 crore in other contracts. This expansion will provide multiple opportunities across diverse segments, enabling the selection of highly profitable tenders.
Acuite further, notes that the company has multiple options for mobilizing cash, with traditional bank facilities increased from Rs. 70 crore to Rs. 115 crore. Additionally, it has vendor discounting facilities worth Rs. 20 crore through trade platforms and OEM finance options like Siemens Finance, which offer lower interest rates to enhance liquidity. The company is also positioned to raise funds from banks or NBFCs at lower interest rates and with reduced margin money requirements. For instance, the company currently has two additional sanctions from CSB and SBM, each for Rs. 20 crore, with a 25% margin money requirement. Furthermore, it expects to receive over Rs. 20 crore in additional unsecured facilities from Treds platforms, with interest rates ranging from 7.75% to 8.87% and a 120-day credit period. For future and current railway orders, the company can utilize the railway LC facility to draw

90% of the LC value as a drawdown limit from SBI for supplier and subcontractor payments without using its own working capital, facilitating project completion before due dates.
These strengths are partly offset by the working capital-intensive nature of operations of the company marked by GCA days of 314 days in FY2024 as against 289 days in FY2023. Acuite notes that the major orders are concentrated towards the end of every fiscal which elevates the debtor's period and the high amount of deposits kept with the tendering authorities further elevates the working capital intensity. 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, cyclicality in the domestic capex cycle and any economic slowdown.

About the Company
Incorporated in 2010, Karnataka baesd E To E Transportation Infrastructure Private Limited (ETETIPL), is engaged in the procurement and supply of track lining, signalling and electrification equipment 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 57.89% as on March 31, 2024) and Zephyr Peacock India (shareholding of 36.89% as on March 31, 2024). The board of directors include Mr. Sarath Naru, Mr. Mukul Gulati, Mr. Rakesh Chopra, Dr. A. G. Ravindranath Reddy and Mr. Sourajit Mukherjee.

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 and higher bidding capabilities
The company reported healthy growth in revenues to Rs.165.30 crores in FY2024 as against Rs. 129.90 crores in FY2023, thereby registering a Y-O-Y growth of 27.25 percent. The company has registered a revenue of Rs. 43.20 crores and PAT of Rs. 2.72 crores in Apr'24-June'24, the company's majority of the revenue is skewed towards the last quarter. The revenue for FY2025 is expected to reach ~Rs. 260 crores. The operating margin of the company improved to 11.61 percent in FY2024 as compared to 11.02 percent in FY2023. The PAT margin stood at 6.40 percent in FY2024 as compared to 5.81 percent in FY2023. High profitability has translated into strong RoCE levels of around 18.65 percent in FY2024 as against 17.46 percent in FY2023.

ETETIPL has an opening order book of Rs. 310 crores for FY2025 which shall be executed in next 12-24 months, thus providing comfortable revenue visibility in the short term. Further, ETETIPL's bidding capabilities have improved, allowing it to participate in single tenders for BOQ-based contracts, from Rs. 25 crores to Rs 50 crores in EPC contracts and from Rs. 50 crores to Rs.100 crores in other contracts.
Acuité derives comfort from the healthy revenue visibility in the near term and believes that the company will continue to sustain its order book position and maintain its business risk profile in the near term. Nonetheless, the smooth execution of the orders in hand without any delays will be a key monitorable.

Infusion of Capital
The company plans to mobilise fresh equity infusion into the company of INR 65 Crore, INR 15.7 Cr from Mukul Agarwal Family & Friends thereby diluting 8.42% and INR 50 Cr through SME IPO diluting 26% of its shareholding by November 2024.
Acuite believes that the above-mentioned infusion of capital will improve the overall the financial risk profile of the company.

Weaknesses

Working capital intensive nature of operations
The working capital operations of the company intensified marked by high Gross Current Assets (GCA) of 314 days as on 31st March 2024 as compared to 289 days on 31st March 2023 on account of elongation in in debtor collection days. The debtor days deteriorated to 138 days in FY2024 as against 99 days in FY2023. Besides, the majority of the orders is usually concentrated towards the end of every fiscal, with more than 55 percent 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. 56.98 crores in FY2024 (FY2023: Rs. 49.71 crores), further augmented the GCA days. However, the inventory days stood efficient at 1 day in FY2024 as against 2 days in FY2023. 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 200 days as on March 31, 2024, as against 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.

Liquidity Position

Adequate
The company has an adequate liquidity position marked by Net Cash Accruals of Rs. 11.16 crores as on March 31, 2024 as against long term debt repayments of Rs. 2.80 crores 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 1.48 times as on March 31, 2024. The fund-based bank limit remained moderately utilised at 67.90 percent and the non

fund based facility remained highly utilised at 79.69 percent for the last twelve months ended June 2024. Further, the company is also positioned to raise funds from banks or NBFCs at lower interest rates and with reduced margin money requirements. Furthermore, it expects to receive over Rs. 20 crores in additional unsecured facilities from Treds platforms, with interest rates ranging from 7.75% to 8.87% and a 120-day credit period. For future and current railway orders, the company can utilize the railway LC facility to draw 90% of the LC value as a drawdown limit from SBI for supplier and subcontractor payments without using its own working capital, facilitating project completion before due dates. These enhancements will further add to the liquidity of the company in the near to medium term. Additionally, the company has facilities with insurance companies' worth Rs. 10 crores, along with Surety Seven insurance brokers, to issue bid bonds in the form of EMD. This capability allows the company to replace traditional bank guarantees or cash fixed deposits without locking up operational funds, enabling participation in more bids with higher margins. However, the working capital intensive management of the company is marked by Gross Current Assets (GCA) of 314 days as on March 31, 2024 as compared to 289 days as on March 31, 2023.
Acuité believes that the liquidity position of the company is likely to remain adequate backed by the steady accruals.

Outlook: Stable

Acuité 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 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	165.30	129.90
PAT	Rs. Cr.	10.57	7.54
PAT Margin	(%)	6.40	5.81
Total Debt/Tangible Net Worth	Times	0.93	0.79
PBDIT/Interest	Times	3.06	3.10

Status of non-cooperation with previous CRA (if applicable)
Not Applicable.

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, 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Aug 2024	Proposed Long Term Bank Facility	Long Term	5.00	ACUITE BBB- | Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB- | Stable (Assigned)
	Working Capital Demand Loan (WCDL)	Long Term	8.80	ACUITE BBB- | Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- | Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- | Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BBB- | Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	11.20	ACUITE A3 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	20.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	5.00	ACUITE A3 (Reaffirmed)
02 Nov 2023	Cash Credit	Long Term	25.00	ACUITE BBB- | Stable (Assigned)
	Working Capital Demand Loan (WCDL)	Long Term	10.00	ACUITE BBB- | Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	10.41	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	2.59	ACUITE BBB- | Stable (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	22.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	11.20	ACUITE A3+ | Upgraded (from ACUITE A3)
RBL Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE A3+ | Upgraded (from ACUITE A3)
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A3+ | Upgraded (from ACUITE A3)
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A3+ | Upgraded (from ACUITE A3)
Indusind Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	30.00	ACUITE BBB | Stable | Upgraded (from ACUITE BBB-)
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE BBB | Stable | Upgraded (from ACUITE BBB-)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BBB | Stable | Upgraded (from ACUITE BBB-)
RBL Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BBB | Stable | Upgraded (from ACUITE BBB-)
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Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	BBB | Stable | Upgraded (from ACUITE BBB-)
ICICI Bank Ltd	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.80	ACUITE BBB | Stable | Upgraded (from ACUITE BBB-)

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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.