

September 26, 2022

East India Udyog Ltd.: Ratings downgraded to [ICRA]BB+ (Negative)/[ICRA]A4+ from [ICRA]BBB-(Negative)/[ICRA]A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	182.35	182.35	[ICRA]BB+ downgraded from [ICRA]BBB-; outlook on the long term rating is "Negative"
Non-fund based limits	275.40	275.40	[ICRA]A4+ downgraded from [ICRA]A3
Unallocated limits	12.25	12.25	[ICRA]BB+/A4+ downgraded from [ICRA]BBB-/A3; outlook on the long term rating is "Negative"
Total	470.00	470.00	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade of East India Udyog Ltd. (EIUL) takes into account the decline in its revenue in FY2022, lower predictability of future cash flows on account of the drop in the order book of confirmed orders, significant increase in loans and advances to Group companies and utilisation of funds for investment in real estate properties (non-core investments). EIUL is involved in engineering, procurement and construction (EPC) of power distribution and water supply projects. The revenue visibility for FY2023 is low with an outstanding order book of ~Rs. 154 crore as on July 31, 2022 (confirmed orders). EIUL has also received a letter of acceptance (LOA) for orders worth ~Rs. 703 crore; the formal contracts are yet to be signed. Further, the build-up in receivables and inventory levels in the EPC business had resulted in a poor working capital intensity (NWC/OI) of 112% as on March 31, 2022. The company has realised a sizeable portion of the receivables in YTD FY2023 which has led to the improvement in the liquidity position of the company. The loans and advances to Group concerns/related parties had increased to Rs. 85.75 crore as on June 30, 2022 from ~Rs. 76.3 crore as on March 31, 2022. The company has informed ICRA that they have received ~Rs. 31 crores back from the group companies/related parties in September 2022 which has aided liquidity position. However, EIUL's investments in the real estate properties (non-core investments) of ~Rs. 58.5 crore as on March 31, 2022 exert pressure on its liquidity. ICRA notes that the loans/advances to group companies/related parties along with investment in real estate were elevated at ~43% of its estimated networth at the end of Q1 FY2023 and thus the quantum of these loans and investments will remain a key monitorable going forward.

The ratings take comfort from the vast experience of the promoters and EIUL's long track record of operations in the power distribution industry. The ratings also draw comfort from the capital structure, indicated from gearing of 0.53 times as on March 31, 2022 and TOL/TNW of 0.75 times as in March 31, 2022. Further, the current orders, majorly consisting of new orders in the international electrification division and the new water division, are expected to carry better operating margins.

The Negative outlook on the ratings reflects the lower revenue visibility for FY2023, indicated by modest execution in the YTD FY2023 and pending conversion of the LOA to final contracts for the high-value orders in the order book. Further, lower revenue booking (based on confirmed order book) is expected to result in inadequate cash flow from operations for debt servicing.

Key rating drivers and their description

Credit strengths

Established track record in executing EPC projects in power distribution; vast experience of promoters – The company, incorporated in 1966, has an operational track record of over five decades in manufacturing critical components for the power distribution industry. EIUL was promoted by the (Late) Mr N.K. Lohia as a transformer manufacturing company. Under its current promoter Mr. Harsh Gupta, the company has forayed into EPC projects for power distribution, capitalising on its strengths in transformer manufacturing operations.

Healthy leverage profile – As on March 31, 2022, the total debt stood at Rs. 193.5 crore, which comprised of working capital borrowings of Rs. 119.9 crore and a term loan of Rs. 73.5 crore. The capital structure remained comfortable with a gearing of 0.53 times and TOL/TNW of 0.75 times as on March 31, 2022.

Focus on high-margin business resulting in positive cash accruals – Despite the declining scale and revenue, EIUL is generating positive cash accruals on the back of healthy profit margins in its projects, reflected in the operating margin of 19.9% in FY2022 (provisional). The current orders, majorly comprising new orders in the international electrification and the new water divisions, are expected to carry better operating margins.

Credit challenges

Low revenue visibility for FY2023 – EIUL's outstanding order book of confirmed orders is low at ~Rs. 154 crore as on July 31, 2022. Apart from the confirmed orders, the company has also received LOA for projects worth ~Rs. 703 crore in the international electrification and water divisions. However, formal contracts for the LOA orders are yet to be signed. The execution during the four months of FY2023 i.e. from April to August 2022 has remained modest at ~Rs. 33.0 crore. The revenue visibility for FY2023 remains weak because of the low pending order book for confirmed orders, pending conversion of LOA to signed contracts and modest execution in Q1 FY2023.

Executorial challenges in new business segment – EIUL has ventured into a new water division where projects involve the construction of the complete infrastructure for water supply and distribution, including water treatment plant as well as the operations & maintenance of these projects. The company remains exposed to various executorial and operational risks in the new water division projects. Moreover, achieving key performance parameters during the construction and operations period will remain critical. A substantial part of the electrification orders is from West African countries like Rwanda, Benin etc., exposing EIUL's operations to geopolitical risks, although the same is mitigated by secured payment mechanisms as majority projects are funded by the World Bank/AFD.

Lumpiness in revenues - The company is exposed to the variability in revenues as majority of the business is tender driven.

Significant loans and advances to Group companies – The loans and advances to the Group companies/related parties operating in unrelated businesses (mainly real estate) have consistently increased to Rs. 85.75 crore as on July 31, 2022 and ~Rs. 76.3 crore as on March 31, 2022 from Rs. 50.64 as on March 31, 2021. The company has informed ICRA that they have received ~Rs. 31 crore back from the group companies/related parties in September 2022 which has aided liquidity position. The funds are provided to support the operations and working capital/capex requirements of these Group companies. The outflow of funds to the Group companies exerts pressure on EIUL's liquidity and any further increase in the advances to Group companies would remain a key monitorable.

Utilisation of funds for non-core investments in real estate properties – EIUL has made investments of ~Rs. 58.5 crore as on March 31, 2022, to purchase land and immovable properties in Delhi NCR. Any significant increase in these non-core investments puts pressure on the liquidity position and thus poses a credit challenge. Timely monetisation of the existing investments at profit will remain critical.

High working capital intensity – EIUL has high working capital intensity, characterised by NWC/OI ratio of 112% on account of the high receivables and inventory levels, especially in the EPC segment. Although the company has realised receivables of ~Rs. 237 crore in YTD FY2023, the receivable cycle still remains high with an elongated payment cycle and retention money in the EPC division. Timely collection of the receivables in the new orders will remain a key monitorable.

Liquidity position: Stretched

The company’s liquidity position is expected to remain stretched given the moderation in the scale of operations which will moderate the cash generation going forward. The moderation in cash generation coupled with significant investments in group companies and non-core real estate assets has led to the moderation in the liquidity position of the company. ICRA expects the company to remain timely in debt servicing from internal sources with current un-encumbered cash of Rs. 21.0 crore and modest fund-based limit utilisation.

Rating sensitivities

Positive factors – The outlook could be revised to stable and/or the rating could be upgraded if the company demonstrates a sustained improvement in its scale of operations and stable profit margins on the back of successful execution of the new orders. Further, improvement in the working capital intensity of operations will boost the liquidity and can lead to an upgrade.

Negative factors – The ratings could be downgraded if there is a sizeable build-up of receivables and piling of inventory and/or increase in the non-core investments, leading to further increase in the working capital intensity and/or non-recovery of the advances to the Group companies. Additionally, lower order inflows or delays in execution resulting in a sustained decline in revenues and/or sizeable debt-funded capex may trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

East India Udyog Ltd. (EIUL) was incorporated in 1966 and was promoted by the (Late) Mr. N. K. Lohia. The company started with the manufacturing of transformers and conductors. Later, Mr. Harsh Gupta took over from Mr. Lohia and forayed into the power distribution EPC business. The company has six manufacturing facilities, of which three are in Roorkee, one in Ghaziabad and two in Guwahati. Of these, four cater to transformer manufacturing, while the other two are into conductor manufacturing. In the last few years, the company has entered EPC business in power distribution, rural electrification and water supply infrastructure.

Key financial indicators (Provisional)

EIUL	FY2021 (Audited)	FY2022 (Prov)
Operating income (Rs. crore)	388.9	356.9
PAT (Rs. crore)	18.8	38.3
OPBDIT/OI	11.9%	19.9%
PAT/OI	4.8%	10.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	3.6	2.7
Interest coverage (times)	1.6	2.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, Prov: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history			
		Type	Amount rated (Rs. Crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating on	for the past 3 years			
						Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					26-Sep-22	30-Sep-21	1-Sep-20	-	
1	Commercial paper	Short term	-	-	-	[ICRA]A3 withdrawn	[ICRA]A3		
2	Fund-based limits	Long term	182.35	-	[ICRA]BB+ (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)		
3	Non-fund based limits	Short term	275.40	-	[ICRA]A4+	[ICRA]A3	[ICRA]A3		
4	Unallocated limits	Long/Short term	12.25	-	[ICRA]BB+ (Negative)/ [ICRA]A4+	[ICRA]BBB- (Negative)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term-Fund based limits	Simple
Short-term – Non-fund based	Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based limits	NA	NA		182.35	[ICRA]BB+(Negative)
NA	Short -term – non-fund based	NA	NA	NA	275.40	[ICRA]A4+
NA	Unallocated	NA	NA	NA	12.25	[ICRA]BB+(Negative)/[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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