

May 29, 2024

Naik Environmental Engineers Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based- Cash credit	3.00	3.00	[ICRA]B+ (Stable); reaffirmed
Long term – Fund-based- Term loan	1.05	1.05	[ICRA]B+ (Stable); reaffirmed
Short term Non-fund based – Others	1.95	1.95	[ICRA]A4; reaffirmed
Total	6.00	6.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings of Naik Environmental Engineers Private Limited (NEEPL) factors in the extensive experience of the promoters spanning over three decades in the waste water treatment industry. The ratings also factor in the medium-term revenue visibility offered by the confirmed orders in operations and maintenance (O&M) services and sewage treatment plant (STP) sales.

The ratings are, however, constrained by the company's small scale of operations which limits its financial flexibility. The ratings also consider the vulnerability of NEEPL's profitability to the volatility in raw material prices and the high working capital intensity of operations, resulting from the high receivable days and inventory holding requirements.

The Stable outlook reflects ICRA's opinion that NEEPL's credit profile is expected to remain stable, backed by the extensive experience of its promoters in the waste water treatment industry and the outstanding orders in hand that will support its revenues, going forward.

Key rating drivers and their description

Credit strengths

Experience of promoter in waste water management - The promoters have experience of over three decades in the water treatment industry. The company is involved in the manufacturing, supply and installation of various waste water treatment equipment, catering to Government entities and private parties. The company has developed its own sewage treatment plants (STP) in-house which are patented. It also specialises in rendering customised services along with O&M services to its clients.

Revenue visibility from confirmed orders from O&M services and product sales – The company has confirmed orders for providing O&M services for a period up to five years, accounting for more than 30-40% of its total revenue. This ensures revenue visibility for NEEPL. Moreover, the company has an outstanding order book position of around Rs. 14 crore for STP sales and around Rs.6 crore for O&M services as of March 2024, which provides near-term revenue visibility. However, timely receipts from customers remain crucial to maintain adequate liquidity.

Credit challenges

Small scale of operations – NEEPL's scale of operations has remained small over the years with revenues ranging from Rs. 7.82 crore to Rs. 11.50 crore during FY2019-FY2024. The revenue is expected to increase, going forward, with the expected execution of the orders in hand and new order inflows. Nevertheless, the overall scale will continue to be small. The limited revenue base and a small net worth base constrain its financial flexibility and ability to absorb any temporary disruptions and

exposes the company to the risk of business downturn. The competitive pressures are also intense, mainly from the established players in the water treatment business.

High working capital intensity of operations - The company's working capital intensity of operations has remained high, reflected in its net working capital relative to its operating income of ~72% in FY2024 owing to a stretched receivable cycle of 189 days and a high inventory holding period of 159 days because of a long manufacturing cycle. The company usually maintains 30-60 days of raw material at any point of time and the remaining comprise WIP inventory. Normally, the company receives its bill realisation within 60 days. However, the clients retain 5% of the bills raised till the installation stage of the contract, that gets reflected in the high debtors. The high working capital requirements have kept NEEPL's liquidity under pressure.

Vulnerability of profitability to adverse fluctuations in raw material prices - The company generally gets product-specific orders and the execution timeline is long while the prices are fixed at the time of the tender. In the absence of any price variation clause, NEEPL's margins remain vulnerable to fluctuations in steel prices during the period of the contract. The profits are susceptible to the volatility in raw material prices, although immediate procurement of raw materials on the receipt of orders protects its profitability to a certain extent.

Liquidity position: Stretched

The company's liquidity is stretched with tightly matched cash flows against a debt repayment of around Rs.1.70 crore in FY2025. The company had modest cash and bank balances of around Rs. 0.19 crore as of March 2024. However, the liquidity is supported by the cushion available from unutilised working capital limits.

Rating sensitivities

Positive factors – ICRA could upgrade NEEPL's ratings if there is a significant improvement in the scale and profitability along with an improvement in working capital cycle, which will improve the overall credit profile and liquidity profile.

Negative factors – Pressure on NEEPL's ratings could arise if there are significant delays in execution of orders in hand or lower-than-anticipated order inflows, leading to a decline in its revenue and or profitability. Any stretch in the working capital cycle because of the stretched receivables impacting the liquidity may also lead to 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 statements of the company.

About the company

Naik Environmental Engineers Private Limited (NEEPL) is a private limited company incorporated in 1990. The company is involved in the manufacturing, supply and installation of energy-efficient water treatment solutions for waste water treatment. Dr. Shirish Naik, Mrs. Veena Naik, Dr. Ms. Kartiki Naik, and Ms. Gauravi Naik are the directors of the company. Mr. Shirish Naik – a PhD from IIT Bombay and a former Professor - looks after the overall management of the business. The management of the company consists of highly experienced professionals, supported by qualified technicians, engineers, and chemists. The company has its own invented and patented product, branded ECO-BIOPACK, based on the rotating media bio reactor (RMBR) technology. It also specialises in rendering customised services such as consulting, engineering design, laboratory testing,

equipment supply, besides standard operation and maintenance (O&M) services in the environmental engineering field. NEEPL has its owned registered office and warehouse at Kopar Khairane, Navi Mumbai, and a manufacturing unit/workshop at Khopoli, Raigad. The company's clients are spread across India.

Key financial indicators (audited)

Standalone	FY2022	FY2023	FY2024*
Operating income	9.9	11.1	11.5
PAT	0.7	0.7	1.0
OPBDIT/OI	14.5%	15.0%	15.5%
PAT/OI	6.9%	6.2%	8.6%
Total outside liabilities/Tangible net worth (times)	1.5	1.2	0.7
Total debt/OPBDIT (times)	5.5	3.9	2.8
Interest coverage (times)	2.6	2.5	2.9

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on May 29, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
					May 29, 2024	-	Mar 27, 2023	Jan 31, 2023	Nov 18, 2021
1	Fund-based-Cash credit	Long term	3.00	--	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING
2	Fund-based-Term loan	Long term	1.05	0.26	[ICRA]B+ (Stable)	-	[ICRA]B+ (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING
3	Non-fund based- Others	short term	1.95	--	[ICRA]A4	-	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4; ISSUER NOT COOPERATING

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Term loan	Simple
Short term -Non-fund based - Others	Very Simple

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	NA	NA	NA	3.00	[ICRA]B+ (Stable)
NA	Term loan	July 2021	NA	June 2025	1.05	[ICRA]B+ (Stable)
NA	Short term - Non-fund based - Others	NA	NA	NA	1.95	[ICRA]A4

Source: Company; Note: Amount in Rs. Crore

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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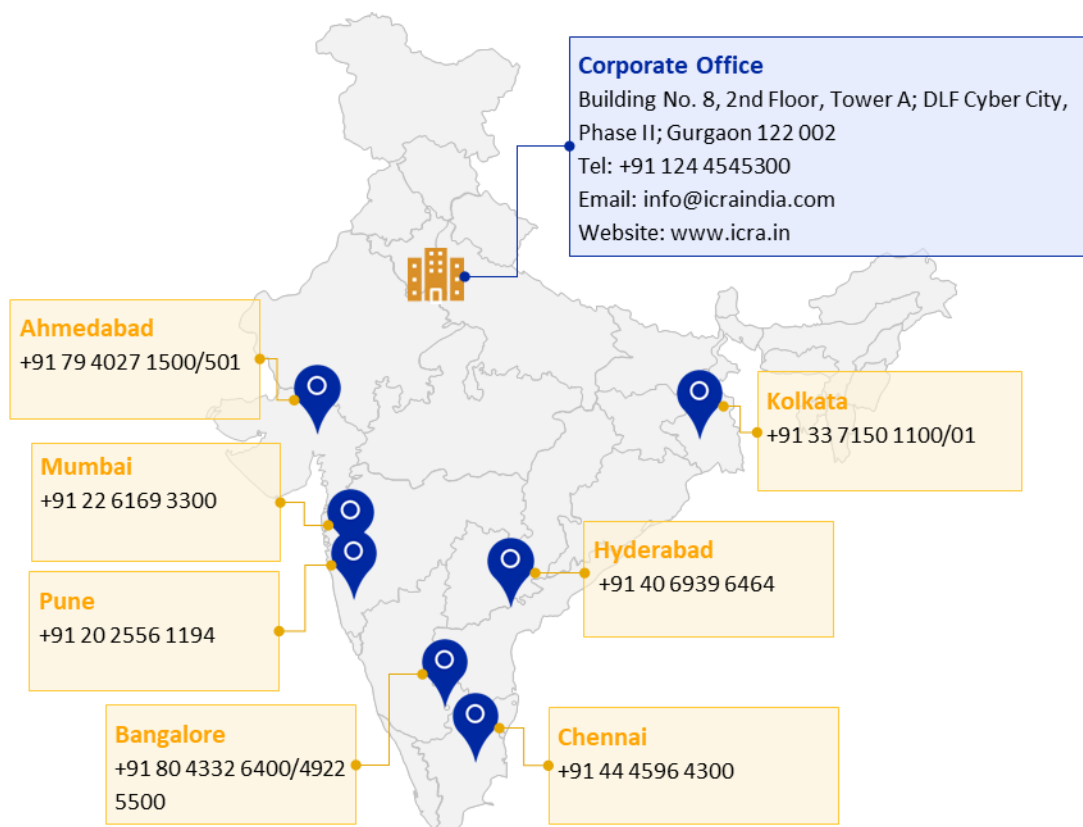


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