

September 14, 2021 ^{Revised}

Neev Energy LLP: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit	7.00	[ICRA]BB (Stable); assigned
Non-fund Based	8.00	[ICRA]A4+; assigned
Unallocated	10.00	[ICRA]BB (Stable)/[ICRA]A4+; assigned
Total	25.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA's rating action notes Neev Energy LLP's (NEL) track record in manufacturing, installation and operations and maintenance (O&M) of smart LED lighting and related internet of thing (IoT) products and services. NEL has healthy orders in hand worth more than Rs. 171 crore, mainly from Urban Local Bodies (ULBs) of Odisha, Madhya Pradesh and Uttar Pradesh, lending revenue visibility. ICRA has also taken comfort from the presence of equity investor at a group level, who are expected to provide funding support for its working capital and capital expenditure requirement in the near to medium term.

However, the ratings are constrained by the competitive and tender-based nature of business, which is reflected in its modest scale and volatile revenues during the past three years. The execution pace is also prone to client side related delays. NEL's net worth base is also low as majority of funding has come in the form of unsecured loans till FY2021. This apart, the business is highly working capital intensive due to long receivable days. Moreover, being in the technology space, the company is exposed to obsolescence risk and thus needs to keep upgrading its capabilities.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that NEL will continue to benefit from its expertise in smart LED lights and services, healthy demand potential in this space and would continue to get orders from ULBs and Smart City Projects including others, given its improving execution track record.

Key rating drivers and their description

Credit strengths

Strong demand of industrial and outdoor smart lighting industry – NEL benefits from the strong demand of smart lighting products, especially in the industrial and outdoor lighting. The demand has been increasing during the last three to four years, mainly from ULBs and Smart City Projects. The outlook is favourable as ULBs are looking to replace traditional lights with smart LED lights, which are significantly efficient compared to traditional lights. NEL's ability to complete the projects ahead of the scheduled time, given the right of first refusal for further enhancement in orders, if any, remains crucial.

Strengths derived from presence of investors – The presence of Eden Ventures (investor at group level) augurs well for the NEL's business. The investors have infused ~Rs. 15 crore into the business till FY2021 mainly in the form of unsecured loans and are expected to continue to provide funding support to NEL as it ramps up its operations.

Track record of successful project completion and healthy order book position – NEL has a strong order book size of more than Rs. 171 crore as of July 2021, which is more than 4 times of FY2021's revenues. The company would execute these orders during the next two to three years. These orders also include O&M revenue, which typically ranges from five to seven years and constitutes 15-20% of the project value.

Credit challenges

Tender-based business resulted in subdued revenue growth – NEL's revenues growth has been subdued and volatile over the past three-years owing to the tender-based nature of business, competitive pressures as well as impact of the Covid-19 pandemic on execution and billing. The company was dependent on a few customers in the past. However, going forward, it has a healthy order book, which ensures good revenue visibility in the near to medium term.

Modest scale of operations and low net worth – NEL has a modest scale of operations and low net worth. The net worth is low as majority of funding has been in the form of unsecured loan till FY2021. Consequently, it has weak leverage metrics. However, ICRA notes that NEL plans to ramp up its human resource base as well as execution pace going forward, which would support its growth plans.

Long working capital cycle given high receivable period – NEL has an elevated receivables level, given the long payment cycle and typical delays witnessed on account of the long approval processes. However, the funding support from investors and good client profile mitigate the risk to some extent.

Technological obsolescence risks require NEL to keep upgrading its capabilities – NEL manufactures smart LED lights, which is prone to frequent change in technology. It needs to invest funds to update the technology and capital expenditure, if any. ICRA notes that NEL's current technological and execution capabilities enable it to garner healthy margins.

Liquidity position: Adequate

NEL's liquidity profile is **adequate** owing to the free cash and bank balance of ~Rs. 2.5 crore on an average basis. There are no major long-term debt repayment liabilities. While there is a substantial blockage of funds in receivables, timely funding support from investor lends comfort to a large extent. However, the cash credit utilisation remained high at more than 90% in the past 12 months.

Rating sensitivities

Positive factors – ICRA could upgrade NEL's ratings if there is a sustained improvement in its revenues and net worth, while maintaining healthy profitability margins. In addition, improvement in working capital position will also be a positive rating trigger.

Negative factors – Negative pressure on NEL's ratings could arise if there is a decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle impacting the company's liquidity position, or TOL/TNW higher than 3 times, on a consistent basis, could trigger a rating 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 of NEL

About the company

NEL was incorporated in 2010 and commenced operations in 2012. The entity is into smart and sustainable solutions for industries and cities using lighting, internet of things (IoT) hardware and smart management platform. Its registered office is in Delhi. NEL has positioned itself as a smart industrial and street light solutions provider and became a comprehensive (supply and O&M) solution provider to the private and government players. Mr. Jitendra Guha, its partner and CEO, looks after its day-to-day operations. NEL is ISO 9001:2015 certified by the British Standards Institute.

Key financial indicators (audited)

NEL standalone	FY2020	FY2021
Operating Income (Rs. crore)	14.06	34.71
PAT (Rs. crore)	0.22	2.47
OPBDIT/OI (%)	19.49%	16.45%
PAT/OI (%)	1.56%	7.12%
Total Outside Liabilities/Tangible Net Worth (times)	9.12x	7.15x
Total Debt/OPBDIT (times)	6.57x	3.93x
Interest Coverage (times)	1.32x	3.05x

Source: Company data

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

Status of non-cooperation with previous CRA: CRISIL has migrated the ratings (CRISIL B+/Stable/A4 ISSUER NOT COOPERATING) to issuer not cooperation category due to the non-receipt of information in a rating rationale published on December 24, 2020.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 14, 2021	-	-	-
1	Cash Credit	Long Term	7.00	-	[ICRA]BB (Stable)	-	-	-
2	Bank Guarantee	Short Term	5.00	-	[ICRA]A4+	-	-	-
3	Letter of Credit	Short Term	3.00	-	[ICRA]A4+	-	-	-
4	Unallocated	Long/Short Term	10.00	-	[ICRA]BB (Stable)/ [ICRA]A4+			

Source: Company data;

Complexity level of the rated instrument

Instrument Name	Complexity Indicators
Long Term – Cash Credit	Simple
Short Term- Bank Guarantee	Very Simple
Short Term- Letter of Credit	Very 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
PNB*	Cash Credit	-	-	-	7.00	[ICRA]BB (Stable)
PNB*	Bank Guarantee	-	-	-	5.00	[ICRA]A4+
PNB*	Letter of Credit	-	-	-	3.00	[ICRA]A4+
-	Unallocated	-	-	-	10.00	[ICRA]BB (Stable)/ [ICRA]A4+

Source: Company data; *Punjab National Bank

Annexure-2: List of entities considered for consolidated analysis: Not applicable

Annexure-3: Corrigendum

Rationale dated September 14, 2021 has been corrected with revision as detailed below:

Previous statement (Error):

Non-Cooperation status from CRISIL was missing from the rating rationale.

Addition of Non-Cooperation from CRISIL (Correction):

There is a change (insertion) in the rationale section on page no 3 in the status of non-cooperation with the previous CRA section as follows

CRISIL has migrated the ratings (CRISIL B+/Stable/A4 ISSUER NOT COOPERATING) to issuer not cooperation category due to the non-receipt of information in a rating rationale published on December 24, 2020.

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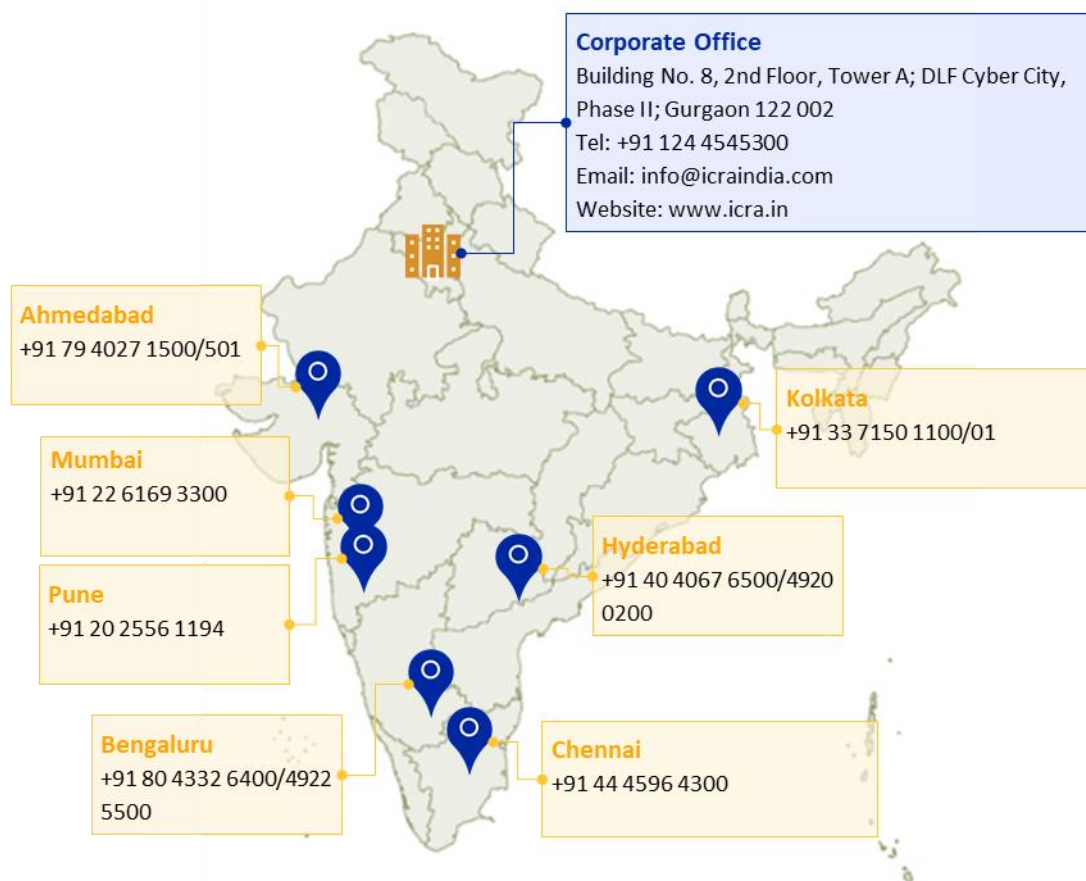
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