

March 27, 2023

## Naik Environmental Engineers Private Limited: Long-term rating upgraded to [ICRA] B+ (Stable); short-term rating reaffirmed; ratings removed from Issuer Not Cooperating

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based- Cash credit	2.00	3.00	[ICRA]B+ (Stable); upgraded from [ICRA] B (Stable); removed from Issuer Not Cooperating category
Long term – Fund-based- Term loan	2.50	1.05	[ICRA]B+ (Stable); upgraded from [ICRA] B (Stable); removed from Issuer Not Cooperating category
Short term Non-fund based - Others	1.50	1.95	[ICRA] A4 reaffirmed; removed from Issuer Not Cooperating category
<b>Total</b>	<b>6.00</b>	<b>6.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

ICRA has upgraded the long-term rating and reaffirmed the short-term rating of Naik Environmental Engineers Private Limited (NEEPL) and removed the ratings from the Issuer Not Cooperating (INC) category owing to the company's co-operation in concluding the rating exercise.

The assigned ratings derive comfort from the experience of the promoter spanning over three decades in the waste water treatment industry. The ratings also factor in the improving sales and medium-term revenue visibility offered by the confirmed orders from 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 (NWC/OI of 100% in FY2022), resulting from the high receivable days and inventory holding requirements. Moreover, the overall liquidity position of the company remains stretched, reflected in the high utilisation of working capital limits.

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 pending orders in hand to support its revenues, going forward.

### Key rating drivers and their description

#### Credit strengths

**Experience of promoter in waste water management-** The promoter has over three decade's experience 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 is patented. It also specialises in rendering customised services along with operation and maintenance (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 of more than five years which account for more than 40% of its total revenue. This ensures

revenue visibility for NEEPL. Also, the company has a pending order book position of Rs. 12.00 crore for STP sales, 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. 14.97 crore during FY2018-FY2022. The company’s performance over the past three years has been fluctuating. 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 small revenue base coupled with a small net worth base limits the financial flexibility and its 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 ~100% in FY2022 owing to a stretched receivable cycle of 265 days and a high inventory holding period of 230 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 bills 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, evident from the moderately high utilisation of the fund-based working capital facility.

**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 tendering. Due to the absence of any price variation clause, NEEPL’s margins remain vulnerable to any 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 its repayment obligations. The company had modest cash and bank balances of Rs. 0.25 crore as of December 2022 along with a cushion of around Rs. 1.00 crore of unutilized working capital facilities. The utilization of the working capital remained moderately high at around 76% for the past 12 months ended January 2023.

### 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 project execution 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	<a href="#">Corporate Credit Rating Methodology</a>
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	FY2021	FY2022
Operating income (Rs. crore)	9.32	9.93
PAT (Rs. crore)	0.55	0.68
OPBDIT/OI (%)	13.51%	14.42%
PAT (%)	5.90%	6.87%
Total outside liabilities/Tangible net worth (times)	1.52	1.48
Total debt/OPBDIT (times)	5.45	5.45
Interest coverage (times)	2.48	2.62

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 (FY2023)					Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Current rating		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 27, 2023	Jan 31, 2023	Nov 18, 2021	Sep 22, 2020	Jun 21, 2019
1 Long term – Fund-based-Cash credit	Long-Term	3.00	-	[ICRA]B+ (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING
2 Long term-Fund-based-Term loan	Long-Term	1.05	0.35	[ICRA]B+ (Stable)	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING	[ICRA]B (Stable); ISSUER NOT COOPERATING
3 Short term - Non-fund based- Others	Short-Term	1.95	-	[ICRA]A4	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A4 ISSUER NOT COOPERATING	[ICRA]A4 ISSUER NOT COOPERATING

### Complexity level of the rated instrument

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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	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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