

Rating Rationale

July 08, 2022 | Mumbai

Enviro Infra Engineers Private Limited

Ratings upgraded to 'CRISIL BBB/CRISIL A3+'; Outlook revised to 'Positive'; Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.127 Crore (Enhanced from Rs.110 Crore)
Long Term Rating	CRISIL BBB/Positive (Upgraded from 'CRISIL BBB-/Stable' and Outlook revised to 'Positive')
Short Term Rating	CRISIL A3+ (Upgraded from 'CRISIL A3')

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has upgraded its ratings on the bank facilities of Enviro Infra Engineers Private Limited (EIEPL) to 'CRISIL BBB/CRISIL A3+' from 'CRISIL BBB-/CRISIL A3' and revised the outlook to 'Positive' from 'Stable'.

The ratings upgrade and revision of outlook takes into account the improvement in EIEPL's business risk profile marked by a 97% growth in its operating income to Rs 210.15 crore in fiscal 2022 as a result of healthy execution of orders. Further, operating profitability improved significantly to 23.8% in fiscal 2022 from 13.8% in fiscal 2021 as a result of execution of large orders with better margins and keeping a tight control on overhead costs. The higher turnover and operating margin have led to healthy growth in accruals in fiscal 2022 to Rs 36.3 crore as compared to Rs 9.8 crore in fiscal 2021. The company's outstanding orderbook is 2.6 times its turnover of fiscal 2022 and is likely to result in growth in scale and accruals in fiscal 2023. Sustainability of its operating margins is a key monitorable.

Revision in the ratings and outlook also factors in the improved financial risk profile with estimated network of Rs 71.6 crore as on March 31, 2022 (Rs 37.0 crore a year earlier). Gearing and total outside liabilities to tangible network (TOLTNW) ratios were healthy at 0.25 and 0.90 time, respectively, as on March 31, 2022. Debt protection metrics were also robust with interest cover of 11.6 times and net cash accrual to total debt (NCATD) ratio of 1.99 times in fiscal 2022.

Liquidity remains comfortable with moderate bank limit utilisation of 70.6% in the 12 months ended May 2022. Net cash accrual, expected to be over Rs 47 crore for fiscal 2023, will be sufficient in the absence of debt obligations.

The rating reflects the extensive industry experience of the promoters of EIEPL and its healthy financial profile. These strengths are partially offset by susceptibility to tender-based and working capital intensive operations as well as the project risks associated with its hybrid annuity model (HAM) project.

Analytical Approach

CRISIL Ratings has moderately consolidated EIEPL and its special purpose vehicle (SPV), EIEPL Bareilly Infra Engineers Private Limited (EBIEPL), wherein the HAM project is being executed. This is because EIEPL will be infusing approximately Rs 44.3 crore of equity and unsecured loans into EBIEPL.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Extensive experience of the promoters: The promoters' decade-long experience in undertaking engineering, procurement and construction (EPC) turnkey projects for wastewater plants, their understanding of the dynamics of the market and healthy relationships with suppliers and customers should continue to support the business. Outstanding orderbook was Rs 542.3 crore as of July 1, 2022 (2.58 times of fiscal 2022 revenue). The strong orderbook led to revenue growth of 97% to Rs 210 crore in fiscal 2022 and is likely to result in substantial growth in the forthcoming fiscals as well.

Healthy financial profile: EIEPL's capital structure has been healthy due to lower reliance on external funds yielding gearing of 0.25 time and low total outside liabilities to adjusted network ratio of 0.9 time as on March 31, 2022. Its debt protection measures have also been comfortable due to moderate leverage and healthy profitability. The interest coverage and NCATD ratios were 11.6 times and 1.99 times, respectively, for fiscal 2022.

Weaknesses:

Susceptibility to tender-based operations: The company's revenue and profitability entirely depend on its ability to win tenders. Further, as the company majorly undertakes government projects, any change in its policy could impact the operating income and profitability of EIEPL adversely.

Working capital intensive operations: Gross current assets were sizeable at 133-256 days over the three fiscals ended 2022—at 133 days as on March 31, 2022. The large working capital requirements arise from the high debtor levels as a result of retention money being included in the same. However, CRISIL Ratings notes that debtors have reduced significantly to 89 days as on March 31, 2022 from 156 days a year earlier. Sustainability of the same is a key monitorable.

Associated project risk: EIEPL has been awarded a HAM project worth ~Rs 182 crore from Uttar Pradesh Jal Nigam. Though financial closure has been achieved, thereby mitigating its financing risk to some extent, construction is yet to commence, and therefore is exposed to associated project risks such as those of construction.

Liquidity: Adequate

Cash accrual of Rs 47 crore comfortably covered debt obligation of Rs 1.5 crore in fiscal 2022 and the surplus supported liquidity. Bank limits of Rs 23 crore (enhanced from Rs 19 crore in March 2022) were moderately utilised at around 70.6% for the 12 months ended May 2022. Current ratio was healthy at 2.02 times as on March 31, 2022.

Outlook: Positive

CRISIL Ratings believes EIEPL will continue to benefit from the extensive experience of its promoters, and established relationships with clients.

Rating Sensitivity factors

Upward factors

- Revenue increases to over Rs 300 crore on a sustainable basis while operating profitability is maintained
- Enhancement in working capital cycle on a sustained basis thereby improving its liquidity profile

Downward factors

- Decline in revenue or profitability leading to decrease in cash accruals to below Rs. 30 crore
- Increase in GCAs to over 300 days or extending additional support to SPV undertaking HAM project thereby weakening its liquidity and financial profiles

About the Company

Incorporated in 2009, EIEPL is located in Delhi. It is engaged in civil construction works and is promoted by Mr Sanjay Jain and Mr Manish Jain.

Key Financial Indicators

As on / for the period ended March 31		2022	2021
Operating income	Rs crore	210.15	107.14
Reported profit after tax	Rs crore	34.60	8.42
PAT margins	%	16.46	7.94
Adjusted Debt/Adjusted Net worth	Times	0.25	0.49
Interest coverage	Times	11.56	3.97

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	4	NA	CRISIL BBB/Positive
NA	Cash Credit	NA	NA	NA	4	NA	CRISIL BBB/Positive
NA	Cash Credit	NA	NA	NA	2	NA	CRISIL BBB/Positive
NA	Cash Credit	NA	NA	NA	8.5	NA	CRISIL BBB/Positive
NA	Cash Credit	NA	NA	NA	4.5	NA	CRISIL BBB/Positive
NA	Letter of credit & Bank Guarantee	NA	NA	NA	15.5	NA	CRISIL A3+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	36	NA	CRISIL A3+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	18	NA	CRISIL A3+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	15.5	NA	CRISIL A3+
NA	Letter of credit & Bank Guarantee	NA	NA	NA	19	NA	CRISIL A3+

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Enviro Infra Engineers Private Limited EIEPL Bareilly Infra Engineers Private Limited	Moderately Consolidated	This is because EIEPL will be infusing approximately Rs 44.3 crore of equity and unsecured loans into EBIEPL.

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	23.0	CRISIL BBB/Positive		--	24-12-21	CRISIL BBB-/Stable		--		--	--
			--		--	06-12-21	CRISIL BBB-/Stable		--		--	--
Non-Fund Based Facilities	ST	104.0	CRISIL A3+		--	24-12-21	CRISIL A3		--		--	--
			--		--	06-12-21	CRISIL A3		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	4	AU Small Finance Bank Limited	CRISIL BBB/Positive
Cash Credit	2	YES Bank Limited	CRISIL BBB/Positive
Cash Credit	8.5	Punjab National Bank	CRISIL BBB/Positive
Cash Credit	4	Kotak Mahindra Bank Limited	CRISIL BBB/Positive
Cash Credit	4.5	IndusInd Bank Limited	CRISIL BBB/Positive
Letter of credit & Bank Guarantee	36	AU Small Finance Bank Limited	CRISIL A3+
Letter of credit & Bank Guarantee	15.5	IndusInd Bank Limited	CRISIL A3+
Letter of credit & Bank Guarantee	18	YES Bank Limited	CRISIL A3+
Letter of credit & Bank Guarantee	15.5	Punjab National Bank	CRISIL A3+
Letter of credit & Bank Guarantee	19	Kotak Mahindra Bank Limited	CRISIL A3+

This Annexure has been updated on 08-Jul-2022 in line with the lender-wise facility details as on 06-Dec-2021 received from the rated entity.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
Rating Criteria for Construction Industry
CRISILs Criteria for Consolidation

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