

Lars Enviro Private Limited (Revised)

August 02, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	8.00	CARE BB; Stable (Double B; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable; (Single B; Outlook: Stable)
Long Term / Short Term Bank Facilities	5.00	CARE BB; Stable / CARE A4 (Double B; Outlook: Stable/ A Four)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable / CARE A4; (Single B; Outlook: Stable / A Four)
Short Term Bank Facilities	3.00	CARE A4 (A Four)	Rating removed from ISSUER NOT COOPERATING category and Reaffirmed
Total Bank Facilities	16.00 (₹ Sixteen Crore Only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities of Lars Enviro Private Limited (LEPL) considers the significant improvement in scale of operation coupled with moderate orderbook position, improvement in profit margin and takeover of the company by Cleanedge Water India Private Limited from the second week of April, 2022. The ratings however continue to be constrained by its modest scale of operation, exposure to foreign exchange fluctuation risk, stretched liquidity position, and presence of company in a highly fragmented industry.

The ratings however continue to derive strength from experienced promoters, comfortable capital structure and moderate debt service coverage indicators, and association with reputed customers and suppliers.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the debt coverage indicators with PBILDT interest coverage of more than 5x
- Improvement in its liquidity position led by timely realization of debtors

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in profitability margins at 2% on a sustained basis
- Any increase in debt levels leading to deterioration of capital structure above 3x
- Any significant delays in execution of orders resulting in sizable decline in scale of operations below Rs. 30 crore on a sustained basis.

Detailed description of the key rating drivers

Key rating weaknesses

Modest scale of operations and losses booked during the year

The total operating income for LEPL has been fluctuating during the last 3 years ended FY21. Further it declined significantly in FY21 due to the Covid outbreak but it has recovered itself and depicted a growth of 77.13% during FY22 as compared to a degrowth of 14.87% in FY21. LEPL has registered a total operating income of Rs. Rs. 66.58 crore in FY22 and Rs.20.65 crore in Q1FY23 with total net worth of Rs. 13.32 crore as on March 31, 2022. Despite the growth, the scale of operation of company it remained small, which deprives it of scale benefit and limits its financial flexibility in times of stress.

The profitability margin of LEPL has been fluctuating during last three years due to tender driven nature of operation. With the decline in total income the fixed cost were to be incurred, this coupled with increase in steel prices resulted in operating loss in FY21. However, it posted PBILDT of 6.08% in FY22 with high margin projects executed coupled with growth in total income due to diversification into the oil segment. Furthermore, the PAT margin also moved in tandem and stood at 3.74% during FY22 (as against net loss in FY21).

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Susceptibility of profitability margins to foreign exchange fluctuation risk

LEPL exports its products (desalination of sea water and brackish water, biogas recovery and treatment of industrial wastewater which includes supply, erection and commissioning and consultancy services) to Kenya, Dubai and Phillipines which amounted to 9.40% in FY22 (13.69% in FY21 and ~6% in FY20) of the total sales. Furthermore, LEPL imports some of raw material from Italy, Germany and USA. The exports and imports are made in respective currencies. This exposes LEPL to foreign exchange fluctuation risk. Moreover, the company does not hedge its foreign exposure.

Presence in highly fragmented and competitive industry

LEPL operates in an industry which is highly fragmented in nature with presence of many unorganized player. Moreover, LEPL also faces competition from cheap imports from China. Being operating in the fragmented industry, leads LEPL to face intense competition along with low bargaining power against its suppliers and customers. The same can put pressure on its operating margin.

Key rating strengths**Change in management structure**

The company was acquired by CleanEdge Water India Private Limited in the second week of April, 2022. LEPL is now a 100% Subsidiary of CleanEdge Water India Pvt Ltd (CWPL). CWPL is a part of Cleantech group with highly experienced promoters namely Mr. Raju Shukla, Chairman, CEO and Director of Cleantech Solar; Dr. Holger Eick, Chief Risk Officer and Director of Cleantech Solar and Mr. Vinod Aachi, CEO of Ariana Investment Management. Mr. Vivek Verma and Mr. Subodh Kumar are a part of the advisory board and are highly experienced. The ultimate holding company of CWPL is Eden Ventures Pte Ltd. promoted by Mr. Raju Shukla, Dr. Holger Eick and Mr. Vinod Aachi. The new management will help LEPL to undertake new high value orders.

Association with reputed suppliers and customers

LEPL has been in the waste management business for more than two decades, which has helped it develop a strong customer base in sugar industry. They have diversified their customer base by entering into distilleries, food and dairy, automobiles and oil & gas sectors. The top 5 customers contributed to ~47% of the total operating income in FY22 (as against ~73.13% of the total operating income in FY21 and 25% in FY20). The major clientele in FY22 includes Hindustan Petroleum Corporation Ltd., Triveni Engineering & Industries Ltd., Indian Oil Corporation Ltd., GPS Renewables Pvt Ltd. and NSL Sugars Ltd, Koppa. The major clientele in FY21 includes Tamil Nadu Newsprint & Papers Ltd, Indian Oil Corporation, Victoria Milling Company Inc, Dalvkot Biofuels Pvt Ltd and Brima Sagar Maharashtra Dist Ltd.

LEPL has established a long-standing relationship with these clients. The reputed customer base shields the company from any counterparty risk and slow down operating in single industry.

Comfortable capital structure and moderate debt coverage indicators

Moderate net worth base as against low debt profile resulted in a comfortable capital structure for LEPL as reflected by an overall gearing of 0.48x, as on March 31, 2022 as against 0.44x as on March 31, 2021 and 0.32x on March 31, 2020. The same deteriorated marginally as on March 31, 2022 on account of higher utilization of working capital limit to fund the growing scale of operation.

The debt coverage indicators were moderate during FY22 as indicated by an interest coverage ratio of 4.18 times in FY22 as against negative in FY21 and 2.12 times in FY20 and total debt to gross cash accruals of 2.38x in FY22 as against negative in FY21 and 5.49x in FY20. The same has improved due to improved profits in FY22 indicating better financial health of the company.

Moderate order book position

As on July 25, 2022, LEPL has orders in hand to the tune of Rs. 60.84 crore (around 90% of the total income for FY22) which is a mix of supply, commencing, erection, civil work and consultancy services for wastewater treatment on turnkey basis. The same are to be executed over a period of 6-9 months. The moderate order book position indicates revenue visibility over the near term, but 40% of the order book is concentrated towards one client. Nevertheless, counterparty risk is mitigated because of reputed client entailing repeat orders.

Liquidity: Stretched

The operating cycle of LEPL improved to 48 days in FY22 (as compared to 99 days in FY21 and 100 days in FY20). Lower bargaining power of the company, forces LEPL to offer higher credit to its well established and reputed clientele. The collection period has improved in FY22 due to averaging effect. Further payment is received in stage wise manner on percentage completion method and 10% is held as retention money against bank guarantee. The receivables of more than 6 months reflected a 10% retention money retained till the assignment is completed, which makes the liquidity appear stretched. On the other hand, it receives sufficient credit from its suppliers due to established relations. The above leads to working capital gap and the same is primarily funded through creditors and internal accruals. LEPL tends to rely minimal on working capital borrowings for its working capital required marked by average CC utilization of 32.6% for the period of 12 months ended May 31, 2022. Cash flow from operations was Rs. 1.46 crore as at the end of FY22 (Rs. 5.12 crore in FY21 and 0.39 crore in FY20).

Analytical approach: Standalone

Applicable criteria

[Policy on Default Recognition](#)

[Rating outlook and credit watch](#)

[Rating Methodology - Service Sector Companies](#)

[Criteria for short term Instruments](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector entities](#)

About the company

LEPL was incorporated in 1997 and is based out of Nagpur (Maharashtra). LEPL was acquired by Cleanedge Water India Private Limited (99.99% shareholding) in the second week of April, 2022. LEPL is now a 100% Subsidiary of CleanEdge Water India Pvt Ltd. The company is engaged in offering environmental engineering services which involves providing solution for wastewater treatment on turnkey basis. Apart from this LEPL is also engaged in providing consultancy services to the clients after installation of project.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (Prov.)	Q1FY23 (Prov.)
Total operating income	37.59	66.58	20.65
PBILDT	-0.15	4.05	2.08
PAT	-1.29	2.49	-
Overall gearing (times)	0.44	0.48	-
Interest coverage (times)	-0.17	4.18	-

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantee		-	-	-	8.00	CARE BB; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	5.00	CARE BB; Stable / CARE A4
Non-fund-based - ST-Forward Contract		-	-	-	0.50	CARE A4

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantee		-	-	-	8.00	CARE BB; Stable
Non-fund-based - ST-Letter of credit		-	-	-	2.50	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT-Bank Guarantee	LT	8.00	CARE BB; Stable	-	1)CARE B; Stable; ISSUER NOT COOPERATING* (01-Mar-22)	1)CARE B+; Stable (12-Feb-21)	1)CARE A4 (13-Dec-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	5.00	CARE BB; Stable / CARE A4	-	1)CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* (01-Mar-22)	1)CARE B+; Stable / CARE A4 (12-Feb-21)	1)CARE B+; Stable / CARE A4 (13-Dec-19)
3	Non-fund-based - ST-Forward Contract	ST	0.50	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (01-Mar-22)	1)CARE A4 (12-Feb-21)	1)CARE A4 (13-Dec-19)
4	Non-fund-based - ST-Letter of credit	ST	2.50	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (01-Mar-22)	1)CARE A4 (12-Feb-21)	1)CARE A4 (13-Dec-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Non-financial covenants	
I. Submission of Stock Statements	Submit stock/debtors' statement on monthly basis
II. Information on UFCE	Submit information on UFCE as on quarter end

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple
3	Non-fund-based - ST-Forward Contract	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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