Enviro Control Private Limited

March 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	0.90	CARE A+; Stable	Reaffirmed
Long-term/short-term bank facilities	260.00	CARE A+; Stable/CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings of bank facilities of Enviro Control Private Limited (ECPL) have been reaffirmed, deriving strength from the promoters' vast experience in waste-water management, and company's strong project execution capability especially in construction and operation and maintenance (O&M) of sewage treatment plants (STP).

Ratings also factor the favourable demand outlook for water infrastructure projects in India with medium-term revenue visibility on the back of healthy orders on hand from reputed clientele. Ratings also consider ECPL's comfortable leverage and debt coverage indicators with its healthy profitability and strong liquidity.

However, ratings are constrained by the moderate, although growing scale of turnkey services provided by ECPL and its presence in a highly competitive water treatment industry, where most contracts are tender-based and largely awarded by government departments. This apart, ratings also consider company's susceptibility to delays in executing projects due to probable regulatory hurdles and its related risks also. Ratings are also constrained by ECPL's working-capital intensive operations, reflected by high receivables period induced and elongated operating cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant increase in total operating income (TOI) to more than ₹1,000 crore while maintaining a healthy profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin, leverage, debt coverage indicators, and liquidity profile.

Negative factors

- Delays in executing ongoing orders, resulting in a significant dip in the TOI and decline in the PBILDT margin below 15% on a sustained basis.
- Increase in working capital intensity, resulting in an operating cycle of beyond 200 days on a sustained basis.
- Moderation in liquidity, marked by free investments going below ₹100 crore.
- Deterioration in overall gearing beyond 0.70x on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings) expectations of the company sustaining its credit risk profile in the near to medium term with growing TOI, backed by promoters' significant experience in the waste-water management industry and healthy order book, while maintaining its comfortable profitability, capital structure, and liquidity profile.

Detailed description of key rating drivers

Key strengths

Experienced promoters with strong technical background and long track record in waste water management

ECPL is promoted by Dr Nimeshchandra Vashi, Managing Director, a doctorate in environmental engineering, having more than four decades of experience in waste-water management. His son, Dr Anand Vashi, Director and a doctorate in environmental engineering, is also with ECPL for two decades. A team of professionals support them in executing projects in a timely manner. ECPL has been developing water treatment projects since 1979 and has an established market position with more than 400 installations for multi-national corporations, state water supply and sewage boards, and municipal corporations in several states in the country, including Gujarat, Maharashtra, Karnataka, Madhya Pradesh, and Tamil Nadu.

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

Over the years, ECPL has built up capabilities of handling large-sized projects and has demonstrated a satisfactory track record by timely executing water, sewage, wastewater, and wastewater recycle and reuse treatment plants with most available technologies in the sector. This has helped it in securing repeat orders from existing clients and technically qualifying for bidding in other projects. ECPL has executed a few first-of-its-kind and largest treatment plants in India, including a 245-million litre per day (MLD) capacity STP. The company has also introduced several advanced and sustainable technologies in India.

Healthy order backlog from reputed clientele having strong credit profile

ECPL has a healthy order book of ₹2,043 crore (as on February 13, 2024). This includes engineering, procurement, and construction (EPC) orders of about ₹1,061 crore and O&M orders of ₹983 crore. The order book on hand is more than 3.93x its FY23 TOI, reflecting healthy revenue visibility in the medium term. This apart, the company is also the lowest bidder in select orders of more than ₹500 crore from two municipal corporations.

Top five EPC orders of the company constitute about 97% of its total EPC contracts, exposing ECPL to an order concentration risk. Its existing orders are concentrated in the STP segment (over 95% of total outstanding orders). However, the company has orders from government bodies including municipal corporations of Surat, Vadodara, and Pune and water supply and sewerage boards having comfortable financial risk profiles, thus entailing low counterparty credit risk.

Of the total order book, more than 90% are safeguarded with the price escalation clause, thus minimising the exposure to raw material price fluctuations. Moreover, ECPL undertakes project work through sub-contractors, who are associated with ECPL since long, on a lump-sum basis.

Comfortable leverage and debt coverage indicators with healthy profitability

ECPL's PBILDT margin remained healthy at 25.37% in FY23 (improved from 15.33% in FY22 owing to high-value additive orders executed during the year, as articulated during the last review). With this, the company's gross cash accruals (GCA) grew to about a healthy ₹117 crore. CARE Ratings expects profitability to be healthy at about 20% in upcoming years.

ECPL has a conservative policy on the use of external debt, while it generates healthy cash accruals from the business. Its overall gearing has remained consistently comfortable in last three years ended March 31, 2023, standing at 0.10x as on March 31, 2023, and comprising interest-free mobilisation advances. ECPL mainly uses non-fund-based limits (bank guarantees [BGs]) and has no debt on its books (except for mobilisation advances) as on March 31, 2023. The net worth remained sizeable at ₹559.19 crore as against minimal debt as on March 31, 2023.

The company's debt coverage indicators remained comfortable in FY23, as indicated by a PBILDT-interest coverage of 78.47x (PY: 40.57x) and total debt (TD)/GCA of 0.47x (PY: 1.76x).

Favourable outlook for water and wastewater treatment projects in India

India has the potential to treat and reuse 80% of the wastewater generated for non-potable purposes, improving water security and sustainability. Only 28% of sewage generated in the country daily is treated and reused, thus underlining the incremental scope of work.

The Central Government has released a National Framework for Safe Reuse of Treated Water for states to draft and implement wastewater treatment policies. The Government of Gujarat had also launched the 'Policy to reuse treated water' in May 2018, mandating that thermal power plants are located within 50 km of an STP for using treated water. The policy has objectives such as to reach a minimum 80% coverage and collection of sewage in all municipal towns, to reach 100% treatment of collected sewage per prescribed standards, to reuse at least 70% of the total freshwater consumption from treated wastewater by 2025, and to reuse 100% of treated wastewater by 2030. These policies are expected to promote the use of treated wastewater and will see STPs established in major towns and cities, thus expected to benefit companies like ECPL.

The government has also undertaken measures for promoting infrastructure, including affordable housing, developing smart cities, and the Atal Mission for Urban Rejuvenation and Transformation (AMRUT, under which ECPL has been awarded a few projects). This also augurs well for the sector. The growing population and increasing urbanisation, access to drinking water, sanitisation and wastewater management continue to be an important activity for local bodies and state governments. This, together with increasing demand for upgradations of STPs due to pollution concerns, are expected to offer wide and sustained business opportunities to players operating in water management.

Key weaknesses

Moderate scale of operations

In FY23, ECPL's TOI grew by 61% y-o-y to ₹519.02 crore (PY: ₹322.18 crore). However, the scale of operations remained moderate. With sustained order execution, CARE Ratings expects the company's revenue to be above ₹650 crore in FY24, with billing of ₹516 crore already undertaken up to February 13, 2024.

CARE Ratings expects the TOI to further improve in subsequent years with a healthy order backlog and the company's established operational track record in this segment. Significant ramp-up in ECPL's scale of operations will remain crucial from the credit perspective.

Presence in highly competitive water treatment industry
The water and sewage treatment plant industry in India is highly competitive, marked by several players. Players in civil construction are also now competing for orders by signing joint ventures (JVs) with small players in the water treatment industry, thus increasing competition. Projects in the industry are awarded based on the bidder's relevant experience, financial capability, and most attractive bid price. ECPL competes with some large established infrastructure players in this space, thus increasing competition.
However, the company has a longstanding established track record and industry expertise, imparting a competitive advantage, especially given its considerable project execution capabilities in this specific segment. The company's moderate scale of operations and net worth restricts it from undertaking very large value contracts on its own. However, depending on requirements of financial criteria, ECPL ties-up with other infrastructure peers to compete with large infrastructure players.

Working capital-intensive operations with a long receivable period
Working capital intensity is inherent to ECPL's business and is also due to high retention money (of ₹75 crore as on March 31, 2023, and about ₹95 crore as on March 31, 2022) for past projects executed, with receivables from government sector clients. Also, sizeable billing is done in the months of February and March of a financial year, resulting in a high collection period at year-end, which are subsequently received within 30-45 days.
ECPL's operating cycle stood high at 131 days in FY23, although improved from 182 days in FY22, owing to reducing the receivable period to 177 days in FY23 (247 days in FY22). Despite sizeable billing, outstanding receivables further reduced in the current year.
Sound credit profiles of majority clients mitigates the counterparty risk to an extent. Comfort is also derived from the fact that majority of the working capital requirement is funded through internal accruals or cashflows, with no major reliance on external debt. However, overall, working capital requirements remain high.

Exposure to delays in project execution due to regulatory hurdles and attendant risks
ECPL receives projects largely from government or semi-government bodies, where mobilisation of clear site is in the scope of the client. Thus, delays in site allotment may lead to delays in executing projects, affecting revenue visibility. However, ECPL is better placed as it has limited equipment and machinery of its own, since it focuses mainly on design development, technology, engineering, project implementation, and procurement of critical items related to projects. ECPL has established relationships with sub-contractors in areas of civil, mechanical, and electrical work, who execute most of the company's projects on a lump-sum turnkey basis. ECPL is exposed to delays in executing contracts, which may result in liquidated damages being charged or may impact the company's revenue or cash accruals. However, as articulated by the management, there has not been any instances of invocation of performance BG in past 40 years.

Liquidity: Strong
ECPL's liquidity is strong, marked by nil term debt repayment obligations, nil utilisation of its fund-based working capital limits, with presence of healthy unencumbered free cash and bank balance of ₹304 crore at FY23-end (in the form of fixed deposits [FDs]), which increased to about ₹376 crore as on February 12, 2024, owing to reducing receivables.
The company mainly utilises non-fund-based limits in the form of BGs in the normal course of business, the average utilisation of which remained moderate in last 12 months (about 51% as on February 12, 2024).

With minimal external debt on its books, ECPL has sufficient headroom to raise additional debt for its capex and working capital requirements in case of such requirements.

Environment, social, and governance (ESG) risks
Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments
Withdrawal Policy

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Utilities	Other utilities	Water supply and management

Incorporated in 2001, Surat-based ECPL (previously known as Enviro Control Associates (India) Private Limited) is promoted by Dr Nimeshchandra Vashi. ECPL took over the business operations of a partnership concern, Enviro Control Associates, on a going concern basis, which was formed by Dr Vashi in 1979.
ECPL undertakes design, engineering, supply, erection, and commissioning of projects in the field of environmental engineering, with major focus on treatment of sewage and wastewater, water reuse, and industrial effluents across India on an EPC basis. Over the years, ECPL has worked with various technologies such as extended aeration (EA), conventional activated sludge process (CASP), upflow anaerobic sludge bed reactor (UASB), moving bed biofilm reactor (MBBR), sequential batch reactor (SBR) with biological nutrient removal (BNR), integrated fixed film activated sludge process (IFAS), tertiary sewage treatment plant with ultra filtration (UF) and reverse osmosis (RO). The company also undertakes O&M projects for municipalities.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2023 (A)
Total operating income	322.18	519.02	519.02
PBILDT	49.38	133.23	133.23
PAT	45.76	113.04	113.04
Overall gearing (times)	0.19	0.10	0.10
Interest coverage (times)	40.57	78.47	78.47

A: Audited. Note: The above results are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	0.90	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	260.00	CARE A+; Stable / CARE A1+

Annexure-2: Rating history for 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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	0.90	CARE A+; Stable	1)CARE A+; Stable (05-Apr-23)	1)CARE A+; Stable (01-Apr-22)	-	1)CARE A+; Stable (31-Mar-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	260.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (05-Apr-23)	1)CARE A+; Stable / CARE A1+ (01-Apr-22)	-	1)CARE A+; Stable / CARE A1+ (31-Mar-21)
3	Non-fund-based - LT/ ST-Derivative limits	LT/ST*	-	-	1)Withdrawn (05-Apr-23)	1)CARE A+; Stable / CARE A1+ (01-Apr-22)	-	1)CARE A+; Stable / CARE A1+ (31-Mar-21)

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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