Clear Water Limited

December 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1.50	CARE BB-; Stable; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	8.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*	Rating moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. (CARE Ratings) has been seeking No Default Statement (NDS) from Clear Water Limited (CWL) to monitor the ratings vide e-mail communications dated, October 14, 2024, November 25, 2024; November 26, 2024; November 27, 2024, and numerous other mails and phone calls. However, despite our repeated requests, the company has not provided the no default statement for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the ratings on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Mahant Overseas bank facilities will now be denoted as CARE BB-; Stable/ CARE A4; ISSUER NOT COOPERATING*.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings are constrained on account of small scale of operations, low profitability margins and moderate order book position albeit slow pace of execution. The ratings are further, constrained by highly competitive industry with business risk associated with tender-based orders and volatility of raw material and absence of price escalation clause. The ratings, however, draws comfort from the experienced promoters and comfortable capital structure and moderate debt coverage indicators.

Analytical approach: Standalone

Outlook: Stable

Detailed description of key rating drivers:

At the time of last rating on January 04, 2024, the following were the ratings weaknesses and strengths. [Updated for audited financials for FY24 (refers to the period April 01st to March 31st) from Ministry of Corporate Affairs)]

Key weaknesses

Small scale of operations

Despite being operational for more four and a half decades, the scale of operations remains small though improved y-o-y as marked by total operating income (TOI) and gross cash accruals (GCA) of Rs.17.23 crore and Rs.1.02 crore respectively during FY24 as against Rs.16.47 crore and Rs. 0.66 crore respectively during FY23. Further, the company's net worth base was relatively small at Rs. 10.05 crore as on March 31, 2024. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits.

Low profitability margins

The company majorly undertakes government projects, which are awarded through the tender-based system. The profitability margins of the company stood low for the past four financial years i.e. (FY20-FY24) since it largely depends upon the nature of contract executed. Further, PBILDT margin of the company has shown improvement to 8.96% in FY24 as against 6.71% in FY23 owing to higher margin contracts executed. Further, the PAT margin of the company has also improved to 4.70% in FY24 as against 2.17% in FY23 primarily on account increase in PBILDT margins at absolute level. Going forward, PBILDT margin is expected to remain at previous level during FY25.

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

Elongated operating cycle
The operating cycle of the company is elongated and stood at 177 days for FY24 on account of high collection period. The company raises bills on milestone basis i.e., on the completion of certain percentage of work and thereon which gets acknowledge by client after necessary inspection of work done by the respective departments. Post the inspection, department clears the payment within 2-3 months (maximum) by deducting certain percentage of bill raised (ranging from 30% of bill amount) in the form of retention money, which they refund post completion of defect liability period leading to elongation in collection period to 147 days. Further, the company receives an average credit period of around 1-2 months from its suppliers. The average utilization of working capital limits remained around 90% utilized for past 12 months ending October 31, 2024.

Highly competitive industry with business risk associated with tender-based orders
CWL operates in a highly competitive construction industry wherein it faces direct competition from various organized and unorganized players in the market given the low barriers to entry. There are number of small and regional players catering to the same market which has limited the bargaining power of the company and has exerted pressure on its margins. CWL receives all of its majority of work orders from government/ public sector undertakings. The risk arises from the fact that any changes in geopolitical environment and policy matters would affect all the projects at large. Furthermore, any changes in the government policy or government spending on projects are likely to affect the revenues and profits of the company. The company majorly undertakes government projects, which are awarded through the tender-based system. This exposes the company towards risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder

Volatility of raw material prices and absence of price escalation clause
In the absence of any backward integration, the company procures its primary raw materials which includes steel, cement, sand, etc. from approved vendors/regional players specified by the respective clients at market rates and hence, it is susceptible to volatility in the input prices, and which may have adverse impact on the profitability of the company. Further, the company's contracts do not have a built-in price escalation clause as majority of contract have lower tenure. Thus, the ability of the company to pass on increased price burden to the customers in a timely manner and maintain profitability margins is critical from the credit perspective.

Moderate order book position albeit slow pace of execution
CWL has an unexecuted order book position of Rs. 69.53 crore as on December 15, 2023, which is equivalent to ~4.34x the total operating income achieved in FY23. The tenor of the construction contracts to be executed varies up to minimum of 18 months and maximum 36 months depending upon the type of contract bid and awarded, thereby reflecting revenue visibility over the medium term. Though the promoters have executed contracts of more than Rs.60 crore over the past few years, the average contract size remained in the range of Rs.3-5 crore with the largest order executed being of Rs.13.91 crore undertaken for providing raw water treatment plant for Delhi Jal Board. Since the company doesn't have any prior experience of executing large contracts, its ability to execute large sized orders remains to be seen. CWL technically qualifies based on promoter's experience; however, commercially it does not prequalify to bid for some of the larger contracts. CWL's business is susceptible to financial loss arising out of delay in execution of turnkey contracts; generally, there exists a liquidity damage clause for delay in contract execution. In past, the company has paid the liquidity damages for the late execution of the contracts.

Key strengths

Experienced Promoter
The company was promoted by Mr. Ram Ratan Bagri and Mrs. Lakshmi Jhawar in 1972. Mr. Ram Ratan Bagri (Managing Director) has around four decades of experience with this entity in EPC of water, sewage and industrial effluent treatment plants on turnkey basis. He looks after the overall affairs of the company with focus on bidding, procurement, and the implementation of the projects. Mr. Nirmala Bagri (promoter and director) is a graduate and has more than three decades of experience with the company. She looks after day-to-day operations of the CWL including finance function. She is also supported by well qualified and experienced engineers, along with supervisory staff.

Comfortable capital structure and moderate debt coverage indicators
As on March 31, 2023, the debt profile of the company comprises of term loan of Rs. 0.96 crore, unsecured loan of Rs. 3.30 crore and working capital borrowings of Rs. 1.57 crore. The capital structure of the company stood comfortable as on the past three balance sheet dates ending March 31, '20- '23 on account of limited debt levels against moderate net worth base. The overall gearing ratio stood at 0.62x as on March 31, 2023, showing marginal improvement from 0.71x as on March 31, 2023, on account of improvement in networth due to accretion of profits to reserves. Further, owing to limited debt levels leading to low finance

cost, the debt coverage indicators of the company stood moderate as marked by interest coverage ratio and total debt to GCA stood at 3.34x and 8.71x respectively for FY23.

Liquidity: Stretched
The liquidity position of the company remains stretched as characterized by moderately high utilisation of working capital limits of around 90% for the past twelve-month ending October 31, 2024. Further, the company has reported gross cash accruals to the extent of Rs.1.02 crore during FY24 and is expected to generate envisage GCA of Rs.1.53 crore as against repayment obligations of Rs. 0.07 crore inFY25.

Assumptions/Covenants: Not Applicable
Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Policy in respect of non-cooperation by issuers
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Utilities	Utilities	Other Utilities	Water Supply & Management

The company undertakes EPC (Engineering Procurement Construction) contracts for setting up water treatment, sewage treatment and industrial effluents treatment plants, machinery and equipment's and its components on turnkey basis. The company executes contracts for both private as well as government companies whereby it gets orders through open tendering and bidding process. It also renders consultancy services to other companies in respect of preparation of techno-commercial bids, scrutiny and evaluation of tenders and price bids and consultancy on execution of contracts and procurement of related plant and machinery.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	16.47	17.23	NA
PBILDT	1.11	1.54	NA
PAT	0.36	0.81	NA
Overall gearing (times)	0.62	0.56	NA
Interest coverage (times)	3.34	5.98	NA

A: Audited UA: Unaudited, NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	1.50	CARE BB-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	8.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	1.50	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable (04-Jan-24)	1)CARE BB-; Stable (16-Feb-23)	1)CARE BB-; Stable (04-Feb-22)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	8.00	CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable / CARE A4 (04-Jan-24)	1)CARE BB-; Stable / CARE A4 (16-Feb-23)	1)CARE BB-; Stable / CARE A4 (04-Feb-22)

*Issuer did not cooperate; based on best available information.
LT: Long term; LT/ST: 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-Bank Guarantee	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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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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