

Advent Envirocare Technology Private Limited

January 04, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	0.75	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long term / Short term Bank Facilities	22.00 (reduced from Rs 25.00 crore)	CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable / A Three Plus)	Reaffirmed
Short term Bank Facilities	3.00	CARE A3+ (A Three Plus)	Assigned
Total Facilities	25.75 (Rupees Twenty Five crore Seventy Five lakh only)		

Details of facilities in Annexe-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Advent Envirocare Technology Private Limited (AETPL) continue to derive strength from vast experience of its promoters, established track record of operations with successful commercialization of new product which AETPL has developed in technology tie-up with UK based, Modern Water PLC, and its modest order book. The ratings, further, continue to draw strength from its healthy profitability along with comfortable leverage and debt protection metrics.

The ratings, however, continue to be constrained by its declining total operating income, concentrated order book with execution risk involving approvals from various government bodies, working capital intensive operation due to high retention money clause in contracts in light of long execution period and competition from other players.

The ability of AETPL to timely execute the orders on hand with ability to grow and diversify its order book, efficiently manage working capital and maintain its capital structure will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strength

Experienced promoters and established track record of operations: AETPL was promoted by Mr. Soham Mehta along with his wife Mrs. Sheetal Mehta in 1996. Mr. Soham Mehta, Chairman and Managing Director, holds engineering degree from Environmental branch. He has over two decades of experience in the turnkey engineering, procurement, construction & commissioning (EPCC) contracts of effluent treatment plants (ETP) and common effluent treatment plants (CETP). Over the years, AETPL has undertaken projects for reputed clientele like Tata Steel Limited, Asian Paints Limited, Cadila Pharmaceuticals Limited, SRF Limited and Colourtex Industries Private Limited etc, thereby demonstrated a strong operational capability.

Successful commercialization of new products providing healthy revenue visibility: In March 2016, AETPL signed a joint commercialisation agreement with UK based Modern Water PLC (MWP; listed on London stock exchange) for development and commercialization of the all membrane brine concentration (AMBC) technology which reduces the capital and operating cost of ETps and CETPs. AETPL would be having exclusive rights to sale AMBC systems in India for which it would pay royalty to MWP. Further, the company has recently received order worth Rs.4.50 crore under AMBC system in November 2018 and it expects to receive large size orders in near future under the said technology products.

Healthy profitability and comfortable capital structure: Over the period of 5 years ended FY17, AETPL's profitability remained healthy; its PBILDT and PAT margin remained in range of 14-15% and 8-9% respectively. Further, the capital structure of AETPL remained healthy in the absence of any long term borrowings as on March 31, 2017 apart from unsecured loans of Rs.0.40 crore infused by promoters during FY17 to support the operations of the company.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Moderate order book and favourable demand scenario provides revenue visibility: AETPL's outstanding orders stood at Rs.117 crore as on December 20, 2017 translating into order book to sales ratio of nearly 2.5 times based on total operating income of FY17, which provides good revenue visibility. Further, the stringent pollution control norms imposed by central and state pollution control boards on treating the polluted water before discharging into local water bodies along with government's thrust on providing safe drinking water are favourable supports the revenue visibility of AETPL.

Key Ratings Weakness

Declining total operating income: The company had intentionally slow down the bidding of new orders since it was working on new technology development through in-house R&D activity. Due to this, there was a significant decline in total operating income during FY17 over FY16. Moreover, the order book position also declined from Rs.202 crore as on September 2016 to Rs.117 crore as on December 20, 2017.

Concentrated order book with project execution risk: The present order book of the company include major order worth Rs.115 crore from Sanganer Enviro Project Development, Jaipur. Hence, AETPL is exposed to customer concentration risk. Further, AETPL is also exposed delay project implementation risk since majority of these projects are subject to sanction and release of government grant.

Working capital intensive nature of operations: AETPL's operations are inherently working capital intensive in nature due to longer execution period. The working capital cycle remains elongated due to high debtor collection (which is actually retention money). Despite long and elongated working capital cycle, the liquidity position of the company remained comfortable marked by strong current ratio of 2.36 times as on March 31, 2017 and no reliance on working capital borrowings. Moreover, company manages its working capital requirement through internal accruals and customers advances.

Highly competitive nature of industry: The water treatment industry is highly fragmented and competitive, marked by the presence of a large unorganized sector. AETPL is a mid-sized player operating in the intensely competitive industry with almost all the tenders of private players awarded based on the technology used and relevant experience of the bidder. However, AETPL is an established player in the water treatment industry and has technology tie-ups with MWP, UK keeping it abreast with the latest technology in the industry. Thus, it is likely to enjoy a competitive advantage especially given its considerable project execution capabilities.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for manufacturing companies](#)

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

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

AETPL was incorporated in February 1996 by Mr. Soham Mehta. AETPL is an ISO 9001:2008 certified company and "AA class" (highest in the scale of AA to E) contractor status by Public Works Department (PWD), Government of Gujarat (GoG) and possesses government recognition for its in-house Research & Development units. It undertakes turnkey EPCC contracts for setting up ETP, CETP, sewage treatment plants, drinking water filtration plants, desalination plants, effluent recycling systems, specialized RO plants, demineralization & softening plants, incinerators, scrubbing systems, multiple effect evaporators and zero liquid discharge (ZLD) systems. AETPL is involved in designing and engineering part, while it procures critical parts from technology suppliers and the entire civil, mechanical and electrical work is sub-contracted. Moreover, AETPL has technology tie-up with US based Environ Technology for Advent Integrated System (AIS) technology; which offers cost effective method for recycling waste water in ETP. The company executes contracts mainly for private companies, whereby it gets orders through open tendering process.

Brief Financials (Rs. Crore)	FY16 (Aud.)	FY17 (Aud.)
Total operating income	104.62	45.12
PBILD T	14.95	6.83
PAT	9.03	3.96
Overall gearing (times)	0.00	0.01
PBILD T Interest coverage (times)	21.33	14.63

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr. Krunal Modi

Tel: 079-40265614

Mobile: +91-8511190084

Email: krunal.modi@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.75	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	22.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	3.00	CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	0.75	CARE BBB+; Stable	-	1)CARE BBB+ / CARE A3+ (24-Nov-16)	1)CARE BBB+ / CARE A3+ (12-Oct-15)	1)CARE BBB (03-Sep-14)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	22.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+ / CARE A3+ (24-Nov-16)	1)CARE BBB+ / CARE A3+ (12-Oct-15)	1)CARE BBB / CARE A3 (03-Sep-14)
3.	Non-fund-based - ST-Letter of credit	ST	3.00	CARE A3+	-	-	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 9198190 09839
 E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
 Cell: + 9198196 98985
 E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
 Cell: + 9199675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
 Cell: + 9198209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited**(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, PashupatiAkshatHeights, Plot No. D-91,
 Madho Singh Road, NearCollectorateCircle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, SenapatiBapat Road,
 ShivajiNagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com