# Rating Update

January 13, 2025 | Mumbai

# Effwa Infra & Research Limited

**Update as on January 13, 2025**

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

**Upward factors:**

- Sustained improvement in scale of operations sustenance of operating margins above 12% leading to higher net cash.
- Sustenance of working capital cycle and financial risk profile

**Downward factors:**

- Witnesses a substantial increase in its working capital requirements thus weakening its liquidity and financial risk profile.
- Decline in scale of operations or operating profitability leading to net cash accrual below Rs 7 crore per fiscal.

Crisil Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, Crisil Ratings seeks regular updates from companies on the business and financial performance. Crisil Ratings is, however, awaiting adequate information from Effwa Infra & Research Limited (EFFWA) which will enable us to carry out the rating review. Crisil Ratings will continue provide updates on relevant developments from time to time on this credit.

Crisil Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

**About the Company**

Incorporated in 2014, EFFWA is engaged in providing turnkey solutions and consultation projects for PSU's related to effluent treatment and recycling, sewage treatment and recycling, solid waste management, incineration and bioremediation as well as restoration of water bodies. Located in Thane (Maharashtra), the company is promoted by Mr. Subhash Kamal and Mrs. Varsha Kamal, who also look after its day-to-day operations.

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# Rating Rationale

February 29, 2024 | Mumbai

# Effwa Infra & Research Private Limited

*Rating reaffirmed at 'CRISIL BBB-/Stable'*

**Rating Action**

| | |
|---|---|
| **Corporate Credit Rating** | **CRISIL BBB-/Stable (Reaffirmed)** |

*Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.*
*1 crore = 10 million*
*Refer to Annexure for Details of Instruments & Bank Facilities*

## Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable' corporate credit rating on Effwa Infra & Research Private Limited (EFFWA).

The ratings continue to reflect Effwa's extensive experience of the promoters in wastewater treatment industry, well-established and diversified customer base, and comfortable financial risk profile. These rating strengths are partially offset by working capital intensive operations, moderate scale of operations and susceptibility to tender-based operations.

## Analytical Approach

Unsecured loans from promoters of Rs 2.2 crores as on March 31, 2023 has been treated as debt as these loans are expected to be paid out over the medium term.

## Key Rating Drivers & Detailed Description

**Strengths:**

- **Extensive industry experience of the promoters and establish market position:** The promoters of the company has more than 3 decades of experience in the water treatment industry which has enabled a deep understanding of industry and its dynamics. Effwa has proven its ability to successfully bid for contracts amidst intense competition and execute contracts with sustained profitability as reflected in a CAGR of 24.41% over the past four years ending fiscal 2023 and has further generated revenues of Rs 102 crores till January 2024 and is estimated to end the year at Rs 150 to Rs 160 crores (Rs 115 crores a year ago). The company has established its position as a reliable turnkey contractor for installation of water treatment and waste management plants. The company currently has an unexecuted order book of Rs 198 Crores as on January 2024 to be executed in the next 12 to 18 months which provides revenue visibility over the medium term. Order book has been successfully maintained at around 2x of the revenues generated in the last 2 fiscal years ended FY 2023, timely execution of the orders in hand while maintaining a healthy order book leading to steady growth in scale of operations will remain a key monitorable.

- **Well established and diversified customer base:** The company has a long-standing relationship with its customers spread across the country. Its key clientele includes strong, reputed players such as TATA Steel Limited, Indian Oil Corporation Limited (CRISIL AAA/Stable/CRISIL A1+), Steel Authority of India, Rashtriya Isat Nigam Limited, Oil and Natural Gas Corporation Limited, amongst others. This has supported the company secure repeat orders from customers and establish strong relationships with key customers. Further, the pan India presence of mitigates the risk of geographical concentration in revenues.

- **Comfortable financial risk profile:** The financial risk profile of the company is comfortable with a moderate net worth of Rs 23.54 crores as on March 31, 2023, estimated to be around Rs 35 to 40 Crores as on March 31, 2024 backed by steady accretion to the reserves. The capital structure of the company is healthy due to the limited reliance on the outside borrowings as highlighted by the gearing and total outside liability to adjusted net worth ratio (TOLANW) ratio estimated of below 0.4 times and below 1 time respectively for fiscal 2024 (0.69 times and 1.69 times, a year ago). The debt protection metrics are also robust backed by steady profitability with interest coverage and net cash accruals to adjusted debt ratio estimated above 4 times and above 1 times respectively for fiscal 2024. In the absence of any major debt funded capital expenditure the overall financial risk profile of the company is expected to remain comfortable over the medium term.

**Weaknesses:**

- **Working capital intensive operations:** The operations of the company are working capital intensive as highlighted by the gross current assets of 185 days for as on March 31, 2023, estimated to be around 160 to 170 days as on March 31, 2024. This is mainly driven by high debtors of 100-120 days, due to moderate credit period with milestone-based billing and retention money. Moreover, the company is required to maintain additional deposits as per business requirements. Inventory levels are low and is expected to remain around 10 to 15 days which majorly includes the Work in progress or Unbilled portion of the work. Overall working capital operations are expected to remain large and a key rating sensitivity factor.

- **Moderate scale of operations and susceptibility to tender-based operations:** Although revenues have increased to Rs 115 crores in fiscal 2023 from Rs 48 crores in fiscal 2020, overall scale of operations remain moderate. In addition, revenues and profitability entirely depend on the ability to win tenders. Intense competition also requires that players bid aggressively to get contracts, and thus restricts the operating margin to a moderate level which has been around 6%-8% over the last four years ended fiscal 2023. The scale is expected to improve to around Rs 150 to 160 crores in fiscal 2024, however still remains at moderate levels.

**Liquidity: Adequate**
Cash accruals are expected of Rs 11 to 15 crores in fiscal 2025 and 2026 which will be sufficient against the negligible repayment obligation of Rs 0.69 crores respectively. The utilization of the bank limits of Rs 8.5 crores average at 67% for the last 12 months ended November 2023. Current ratio stood at 1.74 times with moderate cash and bank balance of Rs 4.54 crores as on March 31, 2023. Further the unsecured loan from the promoters supports the liquidity profile of the company. CRISIL expects internal accruals, cash & cash equivalents and unutilized bank lines will be sufficient to meet its repayment obligations and working capital requirements.

**Outlook: Stable**
CRISIL Ratings believe EFFWA will continue to benefit from the extensive experience of its promoter, and established relationships with clients.

**Rating Sensitivity Factors**
**Upward factors**
- Sustained improvement in scale of operations sustenance of operating margins above 12% leading to higher net cash.
- Sustenance of working capital cycle and financial risk profile

**Downward factors**
- Witnesses a substantial increase in its working capital requirements thus weakening its liquidity and financial risk profile.
- Decline in scale of operations or operating profitability leading to net cash accrual below Rs 7 crore per fiscal.

**About the Company**
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**Key Financial Indicators**

| As on/for the period ended March 31 | Unit | 2023 | 2022 |
|---|---|---|---|
| Operating income | Rs.Crore | 115.10 | 104.45 |
| Reported profit after tax | Rs.Crore | 5.14 | 4.37 |
| PAT margins | % | 4.47 | 4.18 |
| Adjusted Debt/Adjusted Networth | Times | 0.69 | 0.44 |
| Interest coverage | Times | 4.64 | 7.54 |

**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 and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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**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 | NA | NA | NA | NA | NA | NA | NA |

### Annexure - Rating History for last 3 Years

| | Current | | | 2024 (History) | | 2023 | | 2022 | | 2021 | | Start of 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Instrument | Type | Outstanding Amount | Rating | Date | Rating | Date | Rating | Date | Rating | Date | Rating | Rating |
| Fund Based Facilities | LT | | -- | | -- | | -- | | -- | | -- | Withdrawn |
| Non-Fund Based Facilities | ST | | -- | | -- | | -- | | -- | | -- | Withdrawn |
| Corporate Credit Rating | LT | 0.0 | CRISIL BBB-/Stable | | -- | 15-03-23 | CRISIL BBB-/Stable | 12-12-22 | CRISIL BB+/Stable | | -- | -- |
| | | | -- | | -- | | -- | 24-03-22 | CCR BB+/Stable | | -- | -- |

*All amounts are in Rs.Cr.*

## Criteria Details

| Links to related criteria |
|---|
| CRISILs Approach to Financial Ratios |
| Rating criteria for manufaturing and service sector companies |
| CRISILs Bank Loan Ratings - process, scale and default recognition |
| CRISILs Bank Loan Ratings |
| The Rating Process |
| Understanding CRISILs Ratings and Rating Scales |


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