

Press Release

Eurotek Environmental Private Limited

June 20, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+**' (**read as SMERA BB plus**) and short term rating of '**SMERA A4+**' (**read as SMERA A four plus**) on the Rs. 30.00 crore bank facilities of Eurotek Environmental Private Limited. The outlook is '**Stable**'.

Eurotek Environmental Private Limited (EEPL), incorporated in 2008 is engaged in the business of water treatment solutions. The company undertakes projects related to sewage treatment, drinking water treatment, lake and river restoration among others and caters to several industries including chemical, steel, pharmaceutical, paper to name a few. EEPL has a wholly owned subsidiary - Water Matrix Technologies FZE established in 2010 at Sharjah (U.A.E.). Promoted by Mr. Rajkumar Khurra, the subsidiary is also engaged in the aforementioned business.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced promoters**

The Eurotek Group has been providing water treatment solutions for over a decade. The long track record of operations has helped establish long standing relations with customers and suppliers. The company was promoted by Mr. Rajkumar Kurra and Mr. Hiral Kurra who have around 15 years of experience in the aforementioned industry.

- **Strong technical expertise**

The Eurotek group possesses strong technical expertise in the industry and caters to the private and government sectors.

- **Comfortable financial risk profile**

The financial risk profile is comfortable marked by adjusted gearing of 0.40 times as on 31 March, 2016 as against 0.98 times in the previous year. For arriving at the gearing, the interest-free unsecured loan of Rs. 0.86 crore has been considered as quasi-equity. The interest coverage ratio stood at 3.53 times and debt service coverage ratio at 3.01 times for FY2016. The Total outside Liabilities/Total Networth stood at 2.46 times as on 31 March, 2016 as against 3.82 times in the previous year.

Weaknesses

- **Modest scale of operations**

The group reported operating income of Rs. 33.87 crore for FY2016 as against Rs. 33.85 crore in the previous year. For FY2017 (Provisional), the company reported revenue of Rs. 39.06 crore. Around 70 percent of the total revenue for FY2016 was generated through tender-based projects from state government organisations. Any delay in project execution or revenue receipts from the government

is likely to result in higher working capital requirements. However, the said risk is mitigated as the group has established long term relations with state government departments.

• Working capital intensive operations

The operations are working capital intensive with gross current asset days (GCA) of 160 for FY2016 as against 163 days in the previous year. The high GCA days are due to stretched debtors days at 94 for FY2016 and high amount of Earnest Money Deposit (EMD) to be maintained with customers. However, the company is able to manage its working capital cycle effectively due to favourable credit period from suppliers with payable days of 206 for FY2016. Further, the average cash credit limit utilisation was comfortable at ~86 percent during the last six months ended as on 31 March, 2017.

• Highly competitive and fragmented industry

The sector is marked by several mid to big sized players. The group faces intense competition in the industry. Besides, the risk becomes more pronounced as tendering is based on the minimum amount of bid for contracts. Since the nature of business is tender based the profitability of the firm may get affected. However, the risk is mitigated to an extent as the management maintains long term relations with customers.

Analytical Approach

For arriving at the ratings, SMERA has combined the business and financial risk profiles of Eurotek Environmental Private Limited (EEPL) and Water Matrix Technologies FZE, a wholly owned subsidiary of EEPL, collectively referred to as the Eurotek group owing to similarities in the lines of business and management.

Outlook: Stable

SMERA believes that the Eurotek group will maintain a stable outlook over the medium term owing to its established operations and experienced management. The outlook may be revised to 'Positive' if the group registers significant growth in revenues and net cash accruals. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenue and profitability margins or stretched working capital cycle. Any large debt-funded capex undertaken by the company resulting in deterioration in the financial risk profile may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials

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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BB+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A4+
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA A4+

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ABOUT SMERA

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