

Press Release

Eurotek Environmental Private Limited

September 18, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.25.00 crore
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.25.00 crore bank facilities of Eurotek Environmental Private Limited (EEPL). The outlook is '**Stable**'.

EEPL was established in 2003 as a proprietorship concern and later converted to a private limited company in 2008. The current directors of the company are Mr. Rajkumar Kurra and Ms. Hiral Kurra. The company provides water and wastewater treatment solutions and is actively involved in planning, execution and operation of water & wastewater treatment projects for both the government and industrial sectors.

About the Group

Eurotek Group includes Eurotek Environmental Private Limited (EEPL) and Water Matrix Technologies FZE. UAE based Water Matrix Technologies, a wholly-owned subsidiary of EEPL, is engaged in providing technologies for water and wastewater treatment plants.

Analytical Approach

To arrive at this rating, Acuité has consolidated the business and financial risk profiles of Eurotek Environmental Private Limited (EEPL) and Water Matrix Technologies FZE, together referred to as Eurotek Group. The consolidation is in view of similarity in the line of business, common management and operational synergies among the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

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

Eurotek group was incorporated in the year 2008. EEPL is promoted by Mr. Rajkumar Kurra and Ms. Hiral Kurra, both of whom have extensive experience of around fifteen years in the wastewater management industry. The experience of the promoters has helped the group to develop healthy relationships with customers and suppliers.

Acuité believes that the group will continue to benefit through the promoters' industry experience and improving business risk profile over the medium term.

- **Moderate financial risk profile**

The group has followed a moderately aggressive financial risk policy in the past; the same is reflected through its gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.98 times and 3.52 times respectively in as on 31 March 2020 (Provisional). Total outstanding debt as on March 31, 2020 (Provisional) is Rs.23.45 crore, which includes long term borrowing of Rs.0.85 crore, unsecured loans of Rs.12.85 crore and working capital requirement of Rs.9.74 crore. Interest Coverage Ratio (ICR) stood healthy at 3.36 times for FY2020 (Provisional) as against 3.10 times for FY2019. The Debt Service Coverage Ratio (DSCR) remained also remained comfortable at 2.90 times for FY2020 (Provisional) as compared to 2.70 times for FY2019.

Acuité believes the financial risk profile of the group is likely to remain above average over the medium term, on account of moderate gearing and above-average debt protection metrics.

Weaknesses

- **Elongated working capital cycle**

The group's working capital management is intensive marked by its Gross Current Asset (GCA) days of around 286 days in FY2020 (Provisional) as against 234 days in FY2019. Eurotek Group has maintained an inventory holding period of 41 days for FY2020 (Provisional) as against 44 days for FY2019. The debtor days remained around 193 in FY2020 (Provisional) as against 147 days in FY2019.

Acuité believes that the working capital management of the company to remain intensive over the medium term on account of its debtor collection period.

- **Highly competitive and fragmented nature of the industry**

The group is engaged in bidding for tenders on a contractual basis. The aforementioned industry is marked by the presence of several mid to big size players. The group faces intense competition from the other players in the sector. The risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts. There are uncertainties attached with the allotment of tenders. However, the risk is mitigated to an extent on account of the experience of management.

Rating Sensitivities

- Scaling up of operation while improving the profitability margin
- Stretch in the working capital cycle leading to an increase in reliance on working capital borrowings

Material Covenants

None

Liquidity position: Adequate

The group has adequate liquidity, marked by adequate net cash accruals to maturing debt repayment obligations. The group generated cash accruals of Rs.3.39 crore for FY2020 (Provisional) with debt repayment obligations of Rs. 2.42 crore for the same period. The cash accruals of Eurotek Group are estimated to remain in the range of around Rs.3.89 crore to Rs.4.53 crore during FY2021-23 against debt repayment obligations in the estimated range of around Rs.0.85 crore in the same period. The average bank limit utilization over the past twelve months ended July 2020 remained at ~97 percent. The group maintains unencumbered cash and bank balances of Rs.2.82 crore as on 31 March 2020 (Provisional). The current ratio stood at 1.50 times as on 31 March 2020 (Provisional).

Acuité believes that liquidity of the group is likely to remain adequate on account of adequate cash accrual against debt repayments over the medium term.

Outlook: Stable

Acuité believes that Eurotek Group will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the group demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to "Negative", if the group generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	54.12	53.08
PAT	Rs. Cr.	2.58	2.13
PAT Margin	(%)	4.76	4.01
Total Debt/Tangible Net Worth	Times	1.98	1.84
PBDIT/Interest	Times	3.36	3.10

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Mar-2020	Cash Credit	Long Term	10.00	ACUITE BB (Downgraded from ACUITE BB+/Stable) Issuer not cooperating**
	Bank Guarantee/Letter of Guarantee	Short Term	15.00	ACUITE A4+ Issuer not cooperating**
07-Jan-2019	Cash Credit	Long Term	10.00	ACUITE BB+/Stable (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	15.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (Withdrawn)
08-Aug-18	Cash Credit	Long Term	7.00	ACUITE BB+ Issuer not cooperating**
	Proposed Cash Credit	Long Term	2.00	ACUITE BB+ Issuer not cooperating**
	Bank Guarantee/Letter of Guarantee	Short Term	10.00*	ACUITE A4+ Issuer not cooperating**
	Proposed Bank Guarantee	Short Term	11.00	ACUITE A4+ Issuer not cooperating**

*Includes sublimit of Letter of Credit to the extent of Rs. 2.00 crore

**The issuer did not co-operate; Based on best available information.

***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	10.00	ACUITE BB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00*	ACUITE A4+ (Reaffirmed)

*Includes sublimit of Letter of Credit to the extent of Rs. 4.00 crore

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About Acuité Ratings & Research:

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