

## Press Release

### Vishvaraj Environment Private Limited

September 20, 2021



#### Rating Assigned

<b>Total Bank Facilities Rated*</b>	Rs.202.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB/ Outlook: Stable (Assigned)
<b>Short Term Rating</b>	ACUITE A2 (Assigned)

\* Refer Annexure for details

#### Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB**' (**read as ACUITE Triple B**) and short-term rating of '**ACUITE A2**' (**read as ACUITE A Two**) to the Rs.202.00 Cr bank facilities of Vishvaraj Environment Private Limited (VEPL). The outlook is '**Stable**'.

#### Rationale for the Rating

The rating takes into account the extensive experience of management, established track record of operations and healthy financial risk profile of VEPL. Support is also drawn from healthy order-book of VEPL. However, as significant portion of VEPL's current order book is at an initial stage of implementation, execution risk remains. The working capital intensive nature of operations impart a negative bias to the rating. Going forward execution of its existing order-book without significant time and cost overruns and efficient management of its working capital requirement would be a key monitorable.

#### About the Company

Incorporated in 2008, VEPL is a Nagpur based company primarily engaged in construction and operation and maintenance of water and waste water infrastructure projects - water treatment plants and sewage treatment plants. Part of the Vishvaraj Group of companies, VEPL is the flagship company of the group and as on date handles operation and maintenance of 27 drinking water treatment plants (WTPs) with a total capacity of 228 Cr litres per day and 15 Sewage treatment plants (STP) with a capacity of total 53 Cr litres per day. The Vishvaraj Group is promoted by Mr. Arun Lakhani.

#### Analytical Approach

Acuité has considered the standalone business and financial risk profile of VEPL for arriving at this rating.

#### Key Rating Drivers

##### Strengths

###### • **Experienced management, established track record of operations and reputed clientele**

Incorporated in 2008, VEPL is managed by Mr. Arun Lakhani along with a team of well qualified and experienced professionals. The team lead by Mr. Arun Lakhani has been in the infrastructure industry for more than two decades. VEPL is a part of Vishvaraj Group which is primarily engaged in the infrastructure development business under Public Private Partnership ("PPP") model in two sectors – Road & Highway, Water & Waste Water sectors. Vishvaraj Group is owned by Mr. Arun Lakhani and his family vide their holding arm Premier Financial Services Limited (PFSL). VEPL is the flagship company for the Group's portfolio of Water and Waste Water projects. As on date, VEPL is handling operation and maintenance of 27 drinking water treatment plants (WTPs) of total capacity of 228 Cr litres per day and 15 Sewage treatment plants (STP) with a capacity of 53 Cr litres per day. Its Clients include Municipal Corporations of Greater Mumbai, Pune Municipal Corporation, Pimpri-Chinchwad Municipal Corporation, Nagpur Municipal Corporation, Naya Raipur Development Authority, CIDCO, Mahagenco.

VEPL's two completed projects, have received awards from International Finance Corporation (IFC), FICCI and other government bodies. One was a 24\*7 water supply services project undertaken under a joint venture with a France based company under a special purpose vehicle (SPV) named Orange City Water

Private Limited. The project included rehabilitation, upgradation, operation and maintenance of the water supply infrastructure owned by Nagpur Municipal Corporation (NMC), delivery of water in Nagpur city and also collection of corresponding water charges on behalf of NMC. The project involved setting up of water supply network over ~668 kms and setting up of ~2.26 lakh connections. After over nine years of operations, VEPL sold its stake in the SPV in FY2021 to its joint venture partner. The other was the project executed under its SPV Nagpur Waster Water Management Private Limited (NWWMPL). The project involved augmenting an existing 100 MLD Sewage Treatment Plant (STP) at Bhandewadi, Nagpur to 200 MLD STP on Design, Build, Operate and Transfer (DBFOT) basis in Phase I and to construct and operate a Tertiary Water Treatment Plant (TWP) which would use the STP water (from Bhandewadi plant) and supply 190MLD of tertiary treated water to Mahagenco's Khaperkheda Thermal Power Plant (100 MLD) and Koradi Thermal Power Plant (90 MLD) in Phase II. Both the phases of the project have been operational for over ~3 years and ~1 year respectively, with O&M of the two contracted to VEPL. The Phase II of the project was completed 10 months earlier (in April 2020) than its assigned date in January, 2021.

Acuité believes that VEPL will continue to benefit from the extensive experience of its promoter and established track record of operations.

- **Revenue visibility over the medium term**

As on July, 2021 VEPL had confirmed orders in hand of Rs.600 Cr and an expected orderbook of Rs.250 Cr which was to be completed over next two – three years. Out of the total orderbook, orders worth Rs.480 Cr, are recently awarded to VEPL. These constitute 3 key projects i.e. Maheshtala Waste Water Project (HAM Project under National Mission for Clean Ganga (NMCG)), Chandrapur Waste Water Project (Project for sewage water reuse and industrial treatment under take-or-pay basis from Mahagenco) and Turnkey (EPC) contract from Government of Maldives (GoM). As on date, Maheshtala Waste Water project and Maldives EPC contract are at their design stages while the construction work has started for Chandrapur Waste Water project. VEPL operates in the water and waste water sector. With increased focus on waste water recycling by industries as well as local authorities due to rise in water scarcity, the sector is expected to benefit over the medium term. The global market for wastewater recycling and reuse technologies is estimated to grow from \$21.3 billion in 2021 to reach \$40.5 billion by 2026, at a compound annual growth rate (CAGR) of 13.8% during the forecast period of 2021-2026.

Acuité believes that the healthy order-book of VEPL and positive sector outlook provides revenue visibility over the medium term.

- **Healthy financial risk profile**

VEPL's financial risk profile is healthy marked by moderate net-worth, low gearing and healthy debt-protection metrics. The Company's tangible net-worth stood at Rs.182.41 Cr as on March 31, 2021 (Provisional) as against Rs. 68.48 Cr as on March 31, 2020 and Rs. 20.73 Cr as on March 31, 2019. The total debt as on March 31, 2021 (Provisional) stood at Rs. 48.61 Cr as against Rs. 148.35 Cr as on March 31, 2020 and Rs. 165.29 Cr as on March 31, 2019. Out of Rs. 48.61 Cr of total debt as on March 31, 2021 (Provisional) Rs. 48.33 Cr is loan from group companies. In the year FY2021, the Company paid off its outstanding non-convertible debentures of Rs. 80 Cr and monetized its investments in one of its SPV at a profit of Rs.134.50 Cr. The overall gearing stood at 0.27 times as on March 31, 2021 (Provisional) as against 2.17 times as on March 31, 2020 and 7.97 times as on March 31, 2019. Total Outside Liabilities to Tangible Net-worth stood at 0.77 times as on March 31, 2021 (Provisional) as against 3.71 times as on March 31, 2020 and 12.43 times as on March 31, 2019. The interest coverage improved to 16.49 times in FY2021 (Provisional) as against 2.32 times in FY2020 and 1.74 times in FY2021. The steep improvement in interest coverage ratio is on back of exceptional gain of Rs.134.50 Cr. Going forward it is expected to be in the range of 4.5 times to 6.50 times over the medium term. The Debt to EBITDA ratio improved to 0.31 times as on March 31, 2021 (Provisional) as against 3.13 times as on March 31, 2020 and 9.24 times as on March 31, 2019.

Acuité believes the financial risk profile of VEPL would remain healthy over the medium term in absence of any major debt funded capex plan.

## Weaknesses

- **Implementation risk**

Out of the confirmed order-book of Rs.600 Cr and Rs.250 Cr expected orders as on July, 2021, Rs.480 Cr worth of orders are recently awarded to VEPL. These are towards 3 projects i.e. Maheshtala Waste Water project, Chandrapur Waster Water and Turnkey (EPC) contract from Government of Maldives (GoM). Maheshtala Waste Water project is a hybrid annuity model project allocated under the 'Namami Gange Programme' of the Union Government for setting up and operating 35 MLD Sewage Treatment Plant (STP)

at Maheshtala, Kolkata. The project is to be awarded to a special purpose vehicle Maheshtala Waste Water Management Pvt Ltd (MWWMPL), owned by Vishvaraj group with 90 percent stake of VEPL. Chandrapur Waste Water project is structured similar to its NWWMPL project. The project involves rehabilitation of 2 of existing sewage treatment plants (STP) of Chandrapur Municipal Corporation (CMC) on DBFOT basis and construct and operate a single 50 MLD tertiary water treatment plant (TWP) which would further treat the STP water and send the tertiary treated water to Mahagenco's Chandrapur Super Thermal Power Plant (CSTPS). The NWWMPL project was executed in two phases and the second phase was completed 10 months prior to its assigned date. The Chandrapur Waste Water project is to be executed under a special purpose vehicle Chandrapur Waste Water Management Private Limited (CWWMPL) and both rehabilitation of STPs and construction and operations of TWP is to be completed within 2 years of project's appointed date. The Turnkey (EPC) contract is awarded to VEPL under Exim Bank of India Line of Credit to Government of Maldives (GoM) for water and sewerage projects in six islands of the country. The project is currently at design stage. VEPL plans to complete construction of all the three projects by FY2024. Significant portion VEPL's current order book lies in the three key orders which are at a nascent stage of completion and some implementation risk remains. Going forward timely execution of these key orders remain important to VEPL's revenues over the medium term.

Acuité believes completion of the key projects without significant time and cost overruns will be a key rating sensitivity.

**• Working capital intensive nature of operations**

VEPL's operations are working capital intensive in nature as reflected in GCA days of 284 days as on March 31, 2021 (Provisional) as against 107 days as on March 31, 2020 and 412 days as on March 31, 2019. The GCA days are driven by high debtor days. The Debtor days stood at 170 days as on March 31, 2021 (Provisional) as against 64 days as on March 31, 2020 and 234 days as on March 31, 2019. The debtor dues include retention money. As on March 31, 2021 (Provisional) out of the total trade receivables of Rs.78.60 Cr, Rs.14.90 Cr was retention money and Rs.63.71 Cr was trade receivables. The inventory days stood at 37 days as on March 31, 2021 (Provisional) as against 31 days as on March 31, 2020 and 41 days as on March 31, 2019. The creditor days stood at 112 days as on March 31, 2021 (Provisional) as against 57 days as on March 31, 2020 and 244 days as on March 31, 2019.

Acuité expects VEPL's ability to manage its working capital requirements efficiently over the medium term will remain a key rating sensitivity.

**• Highly competitive and fragmented nature of industry**

VEPL operates in a highly fragmented industry with a large number of organized and unorganized players present in the market. However, the risk is mitigated to an extent on account of established track record of operations of VEPL.

**Liquidity Position: Strong**

VEPL has a strong liquidity position marked by healthy net cash accruals against negligible repayment obligations over the medium term. VEPL generated net cash accruals of Rs.114.52 Cr and Rs. 20.17 Cr in FY2021 (Provisional) and FY2020 respectively while its debt obligation to pay during the same period stood at Rs. 80.11 Cr and Nil respectively. The cash accruals of the Company are expected to remain in the range of Rs. 25-35 Cr over the medium term, while no repayments are estimated to be due for the same period. The gross current asset (GCA) days were around 284 days estimated as on March 31, 2021 (Provisional) and the unencumbered cash and bank balance was Rs.7.27 Cr as on March 31, 2021 (Provisional). Currently, VEPL does not utilize any fund based facility and the average bank limit utilization of its non- fund based facility for the twelve months ended May, 2021 stood at ~56 percent. Acuité believes that the liquidity of the Company is likely to remain strong over the medium term on account of healthy expected cash accruals against no debt repayments.

**Material Covenants**

None

**Rating Sensitivities**

- Execution of key orders in hand without significant time or cost overruns
- VEPL's ability to efficiently manage its working capital requirements

### Rating Outlook: Stable

Acuité believes that VEPL will maintain a 'Stable' outlook over medium term on account of its experienced management and healthy order-book. The outlook may be revised to 'Positive' in case of faster than expected completion of its order-book and scale up of operations without adverse impact on profitability and liquidity. Conversely, the outlook may be revised to 'Negative' in case of slower than expected pace of execution and stretch in working capital cycle leading to deterioration in liquidity.

### About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	169.18	297.93
PAT	Rs. Cr.	113.90	19.97
PAT Margin	(%)	67.32	6.70
Total Debt/Tangible Net Worth	Times	0.27	2.17
PBDIT/Interest	Times	16.49	2.32

### 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>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Not Applicable

### \*Annexure – Details of instruments rated

Lenders Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Axis Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Assigned)
Axis Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB/Stable (Assigned)
Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE BBB/Stable (Assigned)
Abhyudaya Co-operative Bank Limited	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Assigned)
Maharashtra State Co-operative Bank Limited	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2 (Assigned)
Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A2 (Assigned)

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### About Acuité Ratings & Research:

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