



## Press Release

### Enzotech Solutions Private Limited

July 29, 2020

#### Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term /Short Term Bank Facilities (Proposed)	3.00	IVR B+; Stable Outlook / IVR A4 (IVR B Plus with Stable Outlook) / IVR A Four)	Assigned
	<b>Total</b>	<b>3.00</b>		

**Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The rating assigned to the bank facilities of Enzotech Solutions Private Limited (ESPL) derives comfort from extensive experience of its promoters, established relationships with reputed clientele and strong backward integration in terms of research and development facility. The rating also consider its healthy order book position backed by strong demand potential owing to diverse client base and its comfortable capital structure. However, these rating strengths are constrained by its below average financial risk profile marked by small scale of operations with loss in FY20 (Prov.), depressed debt service coverage indicators, stretched liquidity position marked by elongated collection period and ESPL's exposure to cyclicality in the end user segments.

#### **Rating Sensitivities**

##### **Upward factors**

- Growth in scale of operations with improvement in profitability and cash accruals on a sustained basis and consequent improvement in liquidity
- Improvement in the capital structure and coverage indicators
- Improvement in the operating cycle leading to improvement in liquidity position

##### **Downward Factors**

- Dip in scale of operations and/or profitability on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing to more than 1.5x
- Further elongation in the operating cycle impacting the liquidity profile



## Press Release

### Detailed Description of Key Rating Drivers

#### Key Rating Strengths

- **Extensive experience of the promoters**

The promoters named Mr. Ajay Jain (B. Tech and MBA, from IIM Kolkata) and Mrs. Ritu Jain are having experience of about two decades in the pre- engineering and civil construction industry and has developed an established relationship with various customers. The extensive experience and healthy relationships with customers and suppliers of the promoters underpin the business risk profile of the company to a large extent. Moreover, the promoters have supported the business with infusion of unsecured loans as and when required. As on March 31,2020 (Prov.) the outstanding unsecured loan from the promoters remained at Rs.2.54 crore.

- **Reputed clientele**

The company is having a strong clientele profile comprising various reputed hospitals, educational institutes, real estate developers across the country.

- **Strong backward integration in terms of research and development facility**

The company has a strong research and development team in order to support its water effluent treatment operations.

- **Healthy order book position**

The company is having a healthy order book of ~Rs.15 crore which is about 2.5x of its FY20 revenue. Further, these orders are expected to be completed within next 1-2 years indicating a strong revenue visibility for the near to medium term.

- **Comfortable capital structure**

The capital structure of the company remained comfortable with a TOL/TNW at 1.08x as on March 31,2020 (Prov.) [1.32x as on March 31,2019].

- **Strong demand potential owing to diverse client base**

The company undertake turnkey projects for water, sewage and effluent treatment. The plants have been installed at both municipal locations where there is consistent demand from hotels, resorts, apartment complexes, schools, IT parks and hospitals. Also there has been demand from industrial locations which includes automotive, power generation, textiles and steel. The



## Press Release

strong technological expertise, research, design & development capability and presence in various segments will help the company to expand its reach.

### Key Rating Weakness

- **Small scale of operations**

The scale of operations of the company remained small over the years with a total operating income of Rs.5.71 crore in FY20 (Prov.). Moreover, the total operating income moderated in FY20 mainly due to slow down in Q4FY20 owing to Covid pandemic effects. The profitability of the company also affected during FY20. During Q1FY21, the company has achieved a revenue of ~Rs.0.70 crore. Small scale of operations restricts the financial risk profile of the company to a large extent. Further, the company has a limited presence in the waste water recycling business with is quite competitive marked by presence of many organised and unorganised players which restricts the profitability of the company. Moreover, the company has a low bargaining power owing to its small size as compared to its peers.

- **Below average financial risk profile**

The financial risk profile of the company remained below average due to its small scale of operations with low cash accruals over the years with a small net worth base. Further, the company made cash loss in FY20 (Prov.). The loss was due to rise in its finance cost attributable to borrowings from various NBFCs to support its high working capital requirement owing to its stretched collection period. Weak cash accruals over the years and cash loss in FY20 affected the debt protections metrics of the company to a large extent. Infomerics expects that the financial risk profile of the company will continues to remain below average in the near term.

- **Intense competition**

The company has a limited presence in the waste water recycling business with is quite competitive marked by presence of many organised and unorganised players which restricts the profitability of the company. Further, the company has a low bargaining power due owing to its small size as compared to its peers.

- **Elongated collection period**

The working capital cycle remained elongated over the years mainly due to its high collection period from the debtors attributable to its low bargaining powers owing to its small size and deteriorating credit profile of its debtors due to subdued economic scenarios. Further, the



## Press Release

debtors include retention money as per the terms of the contract. Due to its high collection period the company was forced to avail borrowings from NBFCs during FY20. Consequently, there was a sharp increase in its finance cost which led to cash loss for the company.

- **Exposure to cyclicality in the end user segments**

ESPL derives most of its revenues from industrial effluent water treatment plants and from real estate projects. However, both the sectors are cyclical in nature and prone to economic movements. Hence, the operations of the company are sensitive to economic movements and impact of the same on these sectors.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial sector)

**Liquidity: Stretched**

The liquidity position of the company is appearing to be stretched due to its stretched collection period along with weak profitability and relatively high debt repayment obligations as compared to its expected gross cash accruals. Further, the liquidity is dependent upon the ability of the promoters to infuse funds as per requirements to support the debt obligations of the company and ability to recover the dues from its debtors and timely realisation of retention money. Availment of working capital limit is also crucial for the liquidity position of the company.

**About the Company**

Enzotech Soutions Pvt Ltd (ESPL) was incorporated in 2006 and started its commercial production in 2007 using an older technology called Rotating Bio Contactor (RBC) for Sewage Treatment Plants. The company could not perform very well and was running in losses. In 2011, it was acquired by Mr. Ajay Jain and Mrs. Ritu Jain, first generation entrepreneurs. By 2014 they had made ESPL into a key player using modern technologies for Sewage Treatment including Membrane Bio Reactor (MBR), Moving bed biofilm reactor (MBBR), Rotating bio contactor (RBC) and sequential batch reactor (SBR). In 2014 the company started doing Effluent Treatment Plants and in 2016 started doing Water Treatment Plants also. ESPL has been among the leading suppliers for water treatment, sewage treatment and effluent



## Press Release

treatment solutions in India. It supplies a wide range of water treatment plants using the most modern technologies and equipment. This includes the entire range of water treatment plants including DM plants, water treatment plants, Ultrafiltration and RO.

### Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	7.81	5.71
EBITDA	0.54	0.16
PAT	0.22	-0.40
Total Debt	2.21	2.80
Tangible Net worth	3.79	3.40
EBITDA Margin (%)	6.88	2.85
PAT Margin (%)	2.76	-7.08
Overall Gearing Ratio (x)	0.56	0.75

\*Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Fund based/Non Fund Based	Long Term/Short-term	3.00	IVR B+; Stable/A4	-	-	-

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

### Name and Contact Details of the Rating Analyst:

Name: Mr. Sanmoy Lahiri Tel: (033) 46022266 Email: <a href="mailto:slahiri@infomerics.com">slahiri@infomerics.com</a>	Name: Mr. Avik Podder Tel: (033) 46022266 Email: <a href="mailto:apodder@infomerics.com">apodder@infomerics.com</a>
---	---

### About Infomerics:



## Press Release

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Fund based/Non Fund Based (Proposed)	-	-	-	3.00	IVR B+; Stable/ A4