



## Press Release

### Himenviro Environmental Engineering Company Private Limited

December 14, 2020

#### Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	8.00	IVR BB/Stable (IVR Double B with Stable Outlook)	Assigned
Short Term Bank Facilities	26.50	IVR A4 (IVR Single A Four)	Assigned
<b>Total</b>	<b>34.50</b>		

**Details of Facilities are in Annexure 1**

#### Detailed Rationale

The ratings assigned to the bank facilities of Himenviro Environmental Engineering Company Private Limited takes into account its experienced & resourceful promoters and fund infusion by the promoters, moderate capital structure & financial risk profile, and reputed clientele with established presence in the global market. Further, the ratings also derive comfort from its sustained performance in H1 FY21. These rating strengths partially offset by decline in top line in FY20 and EBITDA margins albeit improvement in PAT margins, raw material price risk and susceptibility to foreign exchange fluctuations & working capital intensive nature of operations marked by elongated receivable period.

#### Key Rating Sensitivities:

#### Upward Factor:

- Sharp increase in total income with significant improvement in margins and cash accruals on a sustained basis
- Timely servicing of debt for more than 1 year
- Improvement in working capital cycle



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### **Downward factor:**

- Moderation in operating income or profitability and/or cash accrual, any further stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure impacting the financial risk profile, particularly liquidity.
- Further stretch in working capital cycle due to late realization from debtors

### **List of Key Rating Drivers with Detailed Description**

#### **Key Rating Strengths**

- **Experienced & resourceful promoters and fund infusion by the promoters**

The Company is promoted by Mr. Manoj Garg & Mr. Raj Kumar Garg who has an industry experience of over 30 years in capital equipment manufacturing industry and was incorporated in 1993. Extensive experience of the MD underpins the business risk profile of the company and supports it to develop established relationship with its customers. Further, the directors and upper management of the company are well supported by an experienced team of professionals. The promoters have supported the business operations of HEECPL in times of need and have infused unsecured loans as on March 31<sup>st</sup>, 2020 and undertake to subordinate the same to bank facilities.

- **Moderate capital structure and financial risk profile**

The capital structure of the company remained comfortable over the past fiscals. The overall gearing remained moderate at 1.87x as on March 31, 2020 improved from 2.02x as on March 31, 2019 due to increase in Net worth in FY20. The net worth stood at INR 14.20 crore as on March 31, 2020 as against INR 12.57 crore in the previous year. To arrive at the net worth, Infomerics has considered INR 4.43 crore of unsecured loans from promoters/ directors as quasi equity as the same is subordinated to the bank facilities. Further, total indebtedness of the company as reflected by TOL/ANW remained moderate at 3.24x as on March 31, 2020 (TOL/TNW at 4.70x) improved from 3.93x as on March 31, 2019. The debt protection metrics remained moderate, with interest coverage ratio at 0.60x in FY20 declined from 1.69x in FY19. Reduction in ISCR in FY20 was mainly on account of decrease in absolute EBITDA in FY20. However, DSCR remained above 1x and stood at 1.32x in FY20 given its minimum debt funded capital expenditure plan and steady net cash accruals.



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- **Reputed Clientele and established presence in the global market**

The company has well established relations with various reputed companies in domestic and overseas market. Further, the company's clientele is well diversified with top 10 customers comprising only around 35% of the total revenues during FY19. The Himenviro group acquired the german based brand "Intensiv Filter" in 2012, which has greatly helped the company to market its products in the global market.

### Key Weaknesses

- **Decline in top line in FY20 and EBITDA margins, albeit improvement in PAT margins**

Total operating income (TOI) of the company registered a y-o-y de-growth of about ~23.20% in FY20 owing to covid-19 induced shock in all the manufacturing units which directly impacted the sales of the company. The Company had generated 16.21% of sales from export market and remaining 83.79% from domestic market in FY19. However, the export percentage fell down to 3.69% of overall revenue in FY20 due to company's shift in focus towards domestic market owing to covid-19. Absolute EBITDA and EBITDA margins, faced the brunt of slowdown induced by the Covid-19 and declined in FY20 resulting in operating losses incurred by the company of INR (2.29) Cr as compared to operating profit of INR 0.18 Cr in FY19. PAT increased from INR 0.55 Cr in FY19 to INR 0.85 Cr in FY20 and the uptrend in PAT was driven majorly by increase in non-operational income from INR 0.42 Cr in FY19 to INR 3.38 Cr in FY20.

- **Raw material price risk and susceptibility to foreign exchange fluctuations**

Some of the key raw materials used in manufacturing activities of the company are Steel. Any adverse fluctuation in commodity prices going forward may impact the profitability of HEECPL. Additionally, in the absence of any hedging mechanism the company remains exposed to volatility in foreign exchange transactions. However, the foreign exchange fluctuation gain stood at INR 2.06 Cr in FY20.

- **Working capital intensive nature of operations marked by elongated receivable period**

The operations of the company are working capital intensive as reflected by elongated working capital cycle of 175 days and increased from 119 days in FY19 majorly due to stretched receivables at 206 days in FY20 (increased from last year, at 172 days in FY19). As per the



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management, the operating cycle of the company is quite substantial i.e. 175 days because the product made by the company is capital equipment for its customers. The products are large in size and take 90 to 180 days in manufacture and supply depending upon the size and specification of the products. Moreover the company has to make advance payment to various suppliers against the supply of tailor-made item by them. The customer collection period is also on higher side because part of the payment is generally due after supply of entire products and its commissioning. Also part of the products is retained by the customers against the performance of the products which is generally 12 to 18 months. The said terms are being followed throughout the industry as standard terms for capital equipment manufacturers. Consequently, average working capital utilization of the company remained highly stretched at around 99.71% for the past 12 months ended November, 2020.

### **Analytical Approach: Standalone**

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies  
Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity - Stretched**

Stretched liquidity is indicated by high utilization of bank limits (~99.71%) for past 1 year on average ended on November 2020, very low cash balance of Rs.0.06 Cr as on 31.03.20. The company had very low liquid investments/unencumbered deposits as on 31 Mar 2020. The stretch in liquidity is further accentuated due to working capital intensive nature of operations, operating cycle stood at 175 days in FY20 majorly due to stretched receivables, which stood at 206 days. However, the company's cash accruals are expected to be in the range of Rs.1.57-1.65 Cr against the CPLTD of ~Rs.0.38 Cr-1.00 Crs.in the projected period (FY21-FY23). The company has taken a COVID loan (WCTL under GECL) of Rs.3.00 Cr from PNB and also availed moratorium on its debts supporting its liquidity profile.

### **About the Company**

HEECPL was incorporated in 1993 by Mr. Manoj Garg. It designs, manufactures and installs energy efficient pollution control equipments such as bag filter systems, filtering separators and dust collectors. The company generates around 60 per cent of its revenue from the



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domestic market and the rest from overseas (Germany, Switzerland and The Netherlands). The company has completed more than 1,200 installations across various industries like cement, power, steel, sugar and textiles. The manufacturing facilities are located in Uttar Pradesh (Shamli and Noida).

### Financials: Standalone

(Rs.in crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	64.13	49.25
EBITDA	3.93	1.56
PAT	0.55	0.85
Tangible Net worth	8.91	9.77
Adjusted Net worth	12.57	14.20
EBITDA Margin (%)	6.13	3.16
PAT Margin (%)	0.86	1.62
Overall Gearing Ratio (x)	2.02	1.87

\*As per Infomerics Standards

^ Unsecured loans of Rs.4.43 Cr from the promoters and related parties in FY20 has been treated as quasi-equity as the loans are subordinated to bank facilities and will remain in the business over medium term

**Status of non-cooperation with previous CRA:** ACUITE moved the rating to ISSUER NOT COOPERATING category vide its press release dated October 16, 2019 due to unavailability of information

**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.in 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.	CC	Long Term	8.00	IVR BB/Stable	-	-	-
2.	PC	Short Term	7.00	IVR A4	-	-	-



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3.	LC	Short Term	7.00	IVR A4	-	-	-
4.	BG	Short Term	12.50	IVR 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).

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### About Infomerics:

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.





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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs.in Crore)	Rating Assigned/ Outlook
CC	-	-	-	8.00	IVR BB/Stable
PC	-	-	-	7.00	IVR A4
LC	-	-	-	7.00	IVR A4
BG	-	-	-	12.50	IVR A4