

Rating Report

Brickwork Ratings assigns ‘BWR BBB-’ & ‘BWR A3’ for Bank Credit Facilities aggregating ₹ 58.23 Cr of Aireff Detox Pvt. Ltd.

Brickwork Ratings (BWR) has assigned the **Ratings¹** of ‘BWR BBB-’ for the long term Bank credit facilities (existing & proposed) of ₹ 22.02 Cr & ‘BWR A3’ for the existing & proposed Short term Bank credit facilities (existing & proposed) of ₹ 36.30 Cr of Aireff Detox Pvt. Ltd. (“ADPL” or “the Company”)¹, availed through various banks.

| Facility | Limits (₹ Cr) | Tenure | Rating |
|--------------------------------|---------------|---|---|
| Cash Credit (Sub Limit of LC) | 7.02 | Long Term | BWR BBB- (Pronounced Triple B minus) Outlook : Stable |
| Proposed Cash Credit facility | 15.00 | | |
| LC Cum Bank Guarantee | 21.30 | Short Term | BWR A3 (Pronounced A Three) |
| Proposed LC Cum Bank Guarantee | 15.00 | | |
| Total | 58.23 | (INR Fifty Eight Crores and Twenty Three Lakhs only) | |

The rating reflects promoters experience and expertise in environment business, long standing relations with reputed customer’s base, strong order book reflecting healthy revenue visibility, capital infusion by promoters to support future growth plans, favourable long term demand prospects for the water/waste water treatment projects, conservative capital structure with low leverage and comfortable coverage indicators, and promoters ability to infuse further equity as per business requirement

The rating is however constrained by vulnerability of the profitability to competitive pressures, fluctuations in the prices of raw materials particularly in case of fixed price based contracts as well as high working capital inherent in the EPC business, on-going weak macroeconomic conditions & difficult operating environment with increasing competitive pressures could affect the order inflows in the near to medium term and relatively modest scale of business limiting economics of scale.

Background

ADPL is engaged in design, development and execution of Turnkey Projects for Water & Waste Water Treatment & Recycling – including Effluent Treatment & Recycling, Sewage Treatment & Recycling, Hazardous & Bio-Medical Waste Incineration Systems, Water Treatment & Supply Systems, Air pollution Control Systems, Municipal Solid waste Management, Bioremediation of Water Bodies and Lake Beautification/Revival, etc. The Company caters to various industries, mainly Nuclear, Chemical, Pharma, Fertilizer, Refineries, Steel Plant, Tanneries, Health Care,

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Textile, Public service, etc. A few of the companies, to whom we have offered/offering services are SAIL, Rashtriya Ispat Nigam Ltd.(RINL),ONGC, BARC, NTPC, Northern Coal Fields and Western Coal Fields (World Bank Projects), Bangalore Water Supply and Sewage Board, Rajasthan Textile Mills, Hindustan Aeronautics Ltd., Hindustan Zinc Ltd, NALCO, Nuclear Power Corp. Ltd. and the Railways.

Operations

ADPL has been accepted as one of the most capable Environmental Engineering Companies in India. ADPL has commissioned several hundreds of projects across 120 cities in India and in South East Asia. In order to render complete environmental solutions to its prospective customers, ADPL extended its operations by taking up projects on turnkey basis. Apart from Process Design, Basic Engineering, Detailed Engineering, company's total solutions include Construction at site, Procurement of Equipment's, Erection, Testing and Commissioning, O & M for limited period and after sales services. The entire turnkey execution of the contract typically covers a period of 12 to 36 months depending upon the size of the plant.

During 2009 M/s. Asia Enviro Holdings P. Ltd. (AEH) – an affiliate of Clearwater Capital Partners, Singapore invested in Aireff in the form of Fully Convertible Debentures (FCDs). In September, 2009 AEH acquired 40% shareholding in the Company through secondary buyout and acquired further 11% shares by converting some of the FCDs during that period taking their total shareholding to 51% thus having a majority stake. Under the rights of the Shareholders' Agreement and the subsequent amendment, further FCDs were converted into equity shares taking their shareholding to 94% by end of May, 2011.

During Nov, 2013 entire balance of erstwhile promoters' equity shareholding (3%) was acquired by one of Asia Enviro Holding (AEH) owned entities. With this investment shareholding of AEH in the company has gone upto 100 %.

Financial Performance- (Key Financial indicators are as per Annexure-I)

➤ **Revenues and Profitability**

Provisional revenue for FY14 improved to Rs. 49.40 crs backed by better project execution and higher realization. Operating margins have improved to 14.77% in FY14 compared to 12.66% in FY13 on account of increase in price realizations and better cost management. Consequently net profit margin has also improved to 2.18% in FY14. The company has order book of approx. Rs.150 crs and order book of Rs. 200 crs is expected based on bids submitted by the company. The company has strong order book of approx Rs. 150 crores reflecting healthy revenue visibility going ahead. The company is expected to record revenues of Rs 85 crs in FY15 backed by better project execution. Operating margins is expected to remain at current levels and may also decline on account of aggressive bidding by the company to win contracts. Net profit is expected to improve backed by lower interest expenses.

➤ **Leverage and Capital Structure**

Debt levels mainly consist of working capital limits especially BG limits, which is generally required in such kind of business. Debt levels are expected to remain at current levels going ahead. Debt equity of the company is very low on account of better net worth backed by continuous equity infusion by promoters and better profitability which is again ploughed back in the company. Net worth of the company has been on upward trend on account of better profitability which is again ploughed back into the business and equity infusion by promoters. In current year promoters (AEH Group) has infused approx. Rs. 15 crores in the company and more Rs. 7 crs is expected via conversion of ST loans by promoters. Coverage indicators improved in FY14 backed by better operating performance, going ahead expected to remain at comfortable levels on account of modest debt levels and improvement in operating performance. Comfortable coverage ratios along with low gearing reflects the ability of the company to pay its dues in timely manner and provides further room for additional debt for expansion. NCA/Total debt has shown improving trend over recent past driven by better operating performance.

Outlook

Going forward, the Company's ability to execute the orders in timely manner without any cost escalation, while maintaining favourable capital structure and effectively manage its working capital along with the substantial improvement in revenues & profitability would be key rating sensitivities for the firm. The outlook is expected to be stable over the coming year and the performance is estimated to be steady and in line with past performance.

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Annexure I- Key Financials- Aireff Detox Pvt. Ltd.

| Ratios (Rs. In Cr.) | March 2012 | March 2013 |
|---|------------|------------|
| | Audited | Audited |
| Operating Income | 45.29 | 46.11 |
| EBITDA | 4.19 | 5.84 |
| PAT | 0.57 | 0.70 |
| Total Debt | 34.64 | 22.15 |
| Tangible Net worth (Rs. Cr) | 12.48 | 37.19 |
| Total Debt/TNW | 2.78 | 0.60 |
| Interest Coverage (x) | 0.90 | 1.05 |
| EBITDA Margin (%) | 9.24 | 12.66 |
| PAT Margin (%) | 1.25 | 1.53 |
| Net Cash Accruals / Total Debt (x) | 0.02 | 0.04 |
| Current Ratio (x) | 0.87 | 1.64 |

**Calculations has been based on BWR ratio definition*