

December 30, 2022

Neev Energy LLP: Long-term rating upgraded; short-term reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	7.00	7.00	[ICRA]BB+ (Stable); upgraded [ICRA]BB (Stable)
Non-fund Based	8.00	8.00	[ICRA]A4+; reaffirmed
Unallocated	35.00	35.00	[ICRA]BB+ (Stable); upgraded from [ICRA]BB (Stable)/[ICRA]A4+; reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the long-term rating of Neev Energy LLP (NEL) reflects ICRA's expectation that the company will continue to witness sustained improvement in revenue while maintaining healthy profitability margins and returns indicators. Moreover, NEL's growth will be continued to be funded through equity infusion by its investors in line with their stated intent to support working capital and capital expenditure requirements in the near to medium term. The ratings factor in NEL's track record of successful execution in manufacturing, installation, operations and maintenance (O&M) of smart LED lighting projects. NEL has healthy orders in hand worth more than Rs. 185 crore, mainly from Urban Local Bodies (ULBs), Smart City projects, Energy Efficiency Services Limited (EESL) and private players, lending good revenue visibility. The ratings also factor in the healthy demand outlook in this sector, going forward.

However, the ratings are constrained by the NEL's modest scale despite its continued growth. NEL's net worth base is low; although expected to increase gradually on account of equity infusion by investors. While NEL's nature of business is competitive and tender-based, its track record acts as an advantage. In addition, the business is highly working capital intensive due to long receivable days, which also include substantial receivables of more than six months. Moreover, being in the technology space, the company is exposed to obsolescence risk and, thus, needs to keep upgrading its capabilities.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that NEL will benefit from the healthy demand potential in this space and continue to get orders from ULBs and Smart City projects, as well as from others, given its improving execution track record.

Key rating drivers and their description

Credit strengths

Strong demand of industrial and outdoor smart lighting industry – NEL benefits from the strong demand for smart lighting products, especially in the industrial and outdoor lighting space. The demand has been increasing during the last three to four years, mainly from ULBs and Smart City projects. The outlook is favourable as ULBs are looking to replace traditional lights with smart LED lights, which are significantly more efficient than traditional lights. NEL's ability to complete the projects ahead of the scheduled time, given the right of first refusal for further enhancement in orders, if any, remains crucial. NEL has also started getting orders from the reputed private players in the recent past.

Track record of successful project completion and healthy order book position – NEL has a strong order book worth more than Rs. 185 crore as of November 2022, which is more than 4.0 times of its revenues in FY2022. The company would execute these orders during the next two to three years. These orders also include O&M revenue, which typically ranges from five to

seven years and constitutes ~15-20% of the project value. Accordingly, going forward, NEL's revenues are expected to continue to grow with healthy margins. The company has reported ~60% revenue growth in 8M FY2023 on year-on-year basis.

Strengths derived from investors and regular fund infusion – The presence of Eden Ventures augurs well for NEL's business. The investors have infused ~Rs. 28 crore directly into NEL and another Rs. 18 crore across various special purpose vehicles (SPVs) till date, in the form of equity/unsecured loans. The funding support is expected to continue for NEL as it ramps up its operations in the near to medium term, in line with the stated intent of the investors.

Credit challenges

Modest scale of operations – NEL has a modest scale of operations and low net worth. Its tender-based nature of operations lead to competition in the sector; although NEL's track record acts as an advantage. The execution pace also depends on the availability of sites. NEL's net worth has been historically low as most of its funding has been in the form of unsecured loan till FY2021, mainly in SPVs. However, going forward, the investor plans to directly infuse equity into NEL; there would be gradual increase net worth base.

Long working capital cycle given high receivable period – NEL has an elevated receivables level, given the long payment cycle and typical delays on account of the long approval processes. The company also has substantial receivables of more than six months as of March 2022. While the company also receives credit from its suppliers, its working capital intensity remain high at more than 50%. However, the funding support from investors and good client profile mitigate the risk to some extent.

Need to upgrade capabilities to avoid technological obsolescence risks – NEL manufactures smart LED lights, which is prone to frequent changes in technology. It needs to invest funds to update the technology and capital expenditure, if any. ICRA notes that NEL's current technological and execution capabilities enable it to garner healthy margins.

Liquidity position: Adequate

NEL's liquidity profile is **adequate** owing to free cash and bank balances of ~Rs. 3-4 crore on an average basis and ~Rs. 2-3 crore buffer in cash credit limit. There are no major long-term debt repayment liabilities. While there is a substantial blockage of funds in receivables, timely funding support from investors lends comfort to a large extent. The company does not have any major bank guarantee requirements in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade NEL's ratings if there is a significant improvement in its revenues and net worth, while maintaining healthy profitability margins. In addition, improvement in working capital position will be a positive rating trigger.

Negative factors – Negative pressure on NEL's ratings could arise if there is a substantial decline in revenues and operating margins resulting in lower cash flows on a sustained basis. Deterioration in the working capital cycle impacting the company's liquidity position, or TOL/TNW higher than 3.0 times, on a consistent basis, could trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial of NEL.

About the company

NEL was incorporated in 2010 and commenced operations from 2012. The entity is involved in smart and sustainable solutions for industries and cities using lighting, internet of things (IoT) hardware and smart management platforms. Its registered office is in Delhi. NEL has positioned itself as a smart industrial and street light solutions provider and became a comprehensive (supply and O&M) solution provider to private and Government players. Mr. Jitendra Guha, its partner and CEO, looks after its day-to-day operations. NEL is ISO 9001:2015 certified by the British Standards Institute. The company has been receiving PE investment from Eden Ventures.

Key financial indicators (audited)

NEL's standalone	FY2021	FY2022
Operating income	35.0	43.3
PAT	2.5	3.3
OPBDIT/OI	17.6%	17.5%
PAT/OI	7.1%	7.7%
Total outside liabilities/Tangible net worth (times)	7.1x	3.1x
Total debt/OPBDIT (times)	3.7x	2.5x
Interest coverage (times)	3.2x	3.8x

Source: Company,

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

Status of non-cooperation with previous CRA: CRISIL has continued the ratings (CRISIL B+/Stable/A4 ISSUER NOT COOPERATING) in the issuer not cooperation category due to the non-receipt of information via a rating rationale published on February 28, 2022.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & rating in FY2023	Date & Rating in FY2022		-	-
				Dec 30, 2022	Sep 24, 2021	Sep 14, 2021	-	-
1 Cash Credit	Long Term	7.00	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-	-
2 Bank Guarantee	Short Term	5.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	-
3 Letter of Credit	Short Term	3.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	-
4 Unallocated	Long Term/Short Term	35.00	-	[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]BB (Stable)/[ICRA]A4+	[ICRA]BB (Stable)/[ICRA]A4+	-	-

Source: Company,

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Short Term – Letter of Credit/Bank Guarantee	Very Simple
Long Term/Short Term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	7.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	5.00	[ICRA]A4+
NA	Letter of Credit	NA	NA	NA	3.00	[ICRA]A4+
NA	Unallocated	NA	NA	NA	35.00	[ICRA]BB+ (Stable)/ [ICRA]A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545 374
sheetal.sharad@icraindia.com

Uday Kumar
+91 124 4545 867
uday.kumar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
[jayantac@icraindia.com](mailto:jyantac@icraindia.com)

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.