

CERTIFICATE ON OBJECTS: WORKING CAPITAL REQUIREMENTS

The Board of Directors

Enviro Infra Engineers Limited

Unit No.201, R.G. Metro Arcade
Sector -11, Rohini, Delhi-110085

And

Hem Securities Limited

904, A Wing, 9th Floor, Naman Midtown
Senapati Bapat Marg, Prabhadevi Station,
Lower Parel, Mumbai-400013

(Hem Securities Limited referred to as the "Book Running Lead Manager" or the "BRLM")

Dear Sirs,

Re: For certification of Working capital requirement related to proposed initial public offering of equity shares of face value of Rs. 10 each ("Equity Shares" and such initial public offer, an "IPO" or "Offer") of Enviro Infra Engineers Limited (the "Company").

1. We, MRKS AND ASSOCIATES, the independent Chartered Accountants, appointed by the company vide engagement letter dated 25-May-2024 have received a request from the Company to certify and confirm the details pertaining to working capital requirements for June 30, 2024, fiscals March 31, 2024, March 31, 2023 and March 31, 2022 and the business projections for the fiscal 2025 of the Company.

Management's Responsibility

2. The preparation of this certificate is the responsibility of the Company including the preparation and maintenance of all accounting and other relevant supporting records and documents. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of this certificate and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.
3. The Management is responsible for ensuring that the Company complies with the requirements of the SEBI ICDR Regulations", the Guidance note on Reports in Company Prospectuses (Revised 2019) Issued by the Institute of Chartered Accountants of India ("ICAI"), as amended from time to time (the "Guidance Note"), the Companies Act, 2013, as amended (the "Act") and applicable guidelines.



Auditors Responsibility

4. Pursuant to the requirement as mentioned in Para 1, our responsibility is to obtain reasonable assurance and opinion on working capital requirement of the Company and certify factual and arithmetical accuracy of details pertaining to the same.
5. Our engagement was undertaken in accordance with the Standard on Related Services (SRS) 4400, 'Engagements to Perform Agreed-upon Procedures regarding Financial Information', issued by ICAI.

We have verified the audited standalone financial statements for June 30, 2024, fiscals March 31, 2024, March 31, 2023 and March 31, 2022 and the business projections for the fiscals 2025 and other relevant records of the Company as submitted to us. Based on internal projections set out at **Annexure A**, the Company would require total working capital to the extent of ₹75,339.89 lakhs for the fiscal 2025.

Based on our examination, as we considered necessary and according to the information and explanations given to us we hereby certify that as on the date of this certificate the working capital requirements of the Company for the [Period of June 30, 2024, fiscals March 31, 2024, March 31, 2023 and March 31, 2022 (on the basis of audited standalone financial statements)], the projected working capital requirements for the fiscals 2025 and the holding levels are set out at **Annexure A**.

In respect of the working capital requirements detailed hereinabove, the assumption underlying the justification for periods of holding levels are set forth in **Annexure B**.

The Company proposes to utilize ₹ 18,100.00 lakhs of the Net Proceeds in fiscal 2025, respectively, towards its working capital requirements for meeting their future business requirements.

We confirm that the information above is true, fair, correct, accurate, not misleading and without omission of any matter that is likely to mislead, and adequate to enable investors to make a well-informed decision.

This certificate is issued for the sole purpose of the Offer and this certificate or any extracts or annexures thereof, can be used, in full or part, for inclusion in the draft red herring prospectus, red herring prospectus, prospectus and any other material used in connection with the Issue, and for the submission of this certificate as may be necessary, to any regulatory / statutory authority, stock exchanges, any other authority as may be required and/or for the records to be maintained by the BRLM in connection with the Offer and in accordance with applicable law, and for the purpose of any defense the BRLM may wish to advance in any claim or proceeding in connection with the contents of the Offer documents.

We have carried out our work on the basis of Restated Standalone Audited Financial Statements and other documents, public domain and information made available to us by the Company, which has formed substantial basis for this certification. We were not appointed as the statutory auditor and have not audited the Company or its financial statements. Accordingly, we do not express any form of opinion on the financial statements. While we use reasonable efforts to furnish accurate and up-to-date information, we do not warrant that any information contained in or made available through company or public domain is accurate, complete, reliable, current or error-free. Any change in the information made available to us by the Company which forms substantial basis of our verification, subsequent to the issuance of this certificate has not been considered.



This certificate may be relied on by the Company, the Book Running Lead Manager and legal counsel appointed in relation to the Issue.

Yours faithfully,

For and on behalf of MRKS AND ASSOCIATES

(Chartered Accountant)

Firm Registration no 023711N

Saurabh kuchhal

Partner

ICAI Membership No.: 512362

UDIN: 24512362BKFDHI5187

Place: Gurgaon

Date: 23-Oct-24

Encl: As above

CC:

BRLM to the Offer

Hem Securities Limited

203, Jaipur Tower,

Opp. A.I.R, M.I. Road,

Jaipur – 302001

Legal Counsel to the Offer

Desai & Diwanji

Forbes Building, 4th floor,

Charanjit Rai Marg,

Fort, Mumbai – 400 001,

Maharashtra, India

Annexure A
Estimated working capital requirements

On the basis of existing and projected working capital requirement of our Company on a standalone basis, and assumptions for such working capital requirements, our board pursuant to its resolution dated 23-Oct-24 has approved the estimated and projected working capital requirements for Fiscal 2024 and Fiscal 2025 respectively and the proposed funding of such working capital requirements as set forth below:

S. No.	Particulars	FY22	FY23	FY24	June 30, 2024	FY25
		Audited	Audited	Audited	Audited	Projected
1)	CURRENT ASSETS					
a)	Inventories	836.54	982.48	3,527.27	2,027.85	6,264.56
b)	Debtors	3,945.00	8,084.78	11,526.28	11,226.80	22,373.42
c)	Cash & bank balances	18.68	28.27	17.04	12.46	293.00
d)	Loans and advances	3.30	114.45	774.70	45.50	776.14
e)	Other financial assets	3,360.50	4,803.94	23,366.71	31,002.68	24,490.50
f)	Other current assets	722.13	683.31	1,975.70	1,998.07	2,283.55
g)	Current tax assets	67.63	71.44	34.66	43.43	51.99
	Total current assets (A)	8,953.78	14,768.67	41,222.36	46,356.79	56,533.16
2)	CURRENT LIABILITIES					
a)	Trade payables	3,536.72	9,752.40	16,304.84	7,583.38	9,173.50
b)	Other financial liabilities	668.47	878.92	2,774.91	4,043.26	1,963.28
c)	Other current liabilities	283.17	2,317.80	938.64	693.17	639.83
d)	Provisions	8.26	16.18	26.45	29.14	26.55
e)	Tax liabilities (net)	705.70	270.80	1,998.49	3,056.79	1,515.11
	Total - current liabilities (B)	5,202.31	13,236.10	22,043.34	15,405.75	13,318.27
3)	WORKING CAPITAL GAP (A - B)	3,751.47	1,532.56	19,179.02	30,951.04	43,214.89
	Margin - NFB limits* (including Fixed Deposits with maturity of above 12 months and for a period of less than 12 months)	3,821.75	10,807.23	18,697.78	16,135.55	32,125.00
	TOTAL FUNDING REQUIREMENT	7,573.22	12,339.79	37,876.80	47,086.59	75,339.89
a)	Borrowings	1,630.67	4,408.86	14,306.85	19,453.61	2,500.00
b)	Internal accrual / Equity	5,942.55	7,930.94	23,569.95	27,632.98	54,739.89
	IPO PROCEEDS					18,100.00

* The Company is required to issue a Performance and Security Deposit Bank Guarantee equal to a fixed percentage of the Work Order, which is around 5%-10% of each of the Work Order value as a Guarantee to the Authority towards performance obligations for the said Work Order. The Performance Bank Guarantee is retained by the customer till Defect Liability Period of the WWTPs or WSSPs, which generally varies from 1-5 years. The Non-fund based limit is secured by our Company against margin of Fixed Deposits. This amount of Fixed Deposit is classified under 'Current assets' and 'Non-current assets', as per



Annexure – B
Assumptions for working capital requirements

Assumptions for Working Capital requirements

The following table sets forth the details of the holding period (with days rounded to the nearest whole number) considered for June 30, 2024, Fiscal 2024, Fiscal 2023 and Fiscal 2022, as well as projections for Fiscal 2025 respectively.

S. No.	Particulars	Unit	FY22	FY23	FY24	June 30, 2024	FY25
			Audited	Audited	Audited	Audited	Projected
(1)	Current Assets						
a)	Inventories	Days	14	11	18	36	21
b)	Trade Receivables	Days	64	88	58	200	75
(2)	Current Liabilities						
a)	Sundry Creditors (Trade)	Days	88	171	120	252	45

Key Justifications

The working capital projections made by the Company are based on certain key justifications, as set out below:

Sr No	Particulars	Justification
1	Inventories	The business of designing, construction, operation and maintenance of WWTPs and WSSPs requires procuring inventories in large quantities to fulfil project needs. Given the increase in our order books and that our projects are frequently located in remote regions, managing multiple logistics poses a consistent challenge. Inventories include raw materials. The historical holding days of inventories (calculated as closing inventory on balance sheet date divided by revenue from operations over 365 days) has been in range 11 to 18 days during the last three financial years. The Company estimates inventories holding days to be around 20 days in Fiscal 2025 considering the scale of operations. Further in order to avoid any supply chain disruption the company expects to maintain such inventory levels. The inventories have increased from ₹836.54 lakhs for FY 2021-22 to ₹982.48 lakhs for FY 2022-23 due to increase in the Order Book of the Company which requires higher levels of inventories for project execution. Similarly, the inventories have increased from ₹982.48 lakhs for FY 2022-23 to ₹3,527.27 lakhs for FY 23-24 due to increase in the Order Book of the Company which requires higher levels of inventories for project execution. Depending on the size and capacity of the project it usually takes 18 to 30 months for the



		company to complete a project. Therefore, orders won in FY 2023 and FY 2024 required inventories to be maintained for its execution during FY 23-24.
2	Trade Receivables	The historical holding days of trade receivables (calculated as closing trade receivables divided by revenue from operations over 365 days) has been improving from 88 days to 58 days during last three financial years. As we currently engage in development of WWTPs and WSSPs on Engineering, Procurement, and Construction model (EPC) and Hybrid Annuity Model (HAM) the specific terms of our work orders and tenders provide variations in our debtor cycle. As per the current credit terms of the company & prevalent trend in business of the company, the holding level for debtors is anticipated at 75 days of total revenue from operations during Fiscal 2025. The customer base comprises of government authorities where payments of running account bills are approved post inspection and satisfactory verification by the authorities. The Trade Receivables has increased from ₹3,945.00 lakhs for FY 2021-22 to ₹8,084.78 lakhs for FY 2022-23 due to higher levels of project execution. Similarly, the Trade Receivables has increased from ₹8,084.78 lakhs for Financial Year 2022-23 to ₹ 11,526.28 lakhs for FY 23-24. The customer base comprises of government authorities where payments of running account bills are approved post inspection and satisfactory verification by the authorities and is dependent on allocation of funds available with government authorities.
3	Other financial and Other current assets	Other financial and Other current assets majorly comprise of contract assets (like unbilled revenue and retention & withheld), balances with statutory/governmental authorities, service concession arrangement receivable, advance to suppliers, prepaid expenses and earnest money deposits. We expect the growth in other assets to be in line with the expected growth in business. Other Financial & Other Current Assets has increased from ₹4,082.63 lakhs for FY 2021-22 to ₹5,487.25 lakhs for FY 2022-23 due to increase in value of Unbilled revenue and Retention & Withheld money for project execution with larger and higher number of projects being executed during FY 23 as compared to FY 22. Further, the Other Financial Assets has increased from ₹5,487.25 lakhs for FY 2022-23 to ₹25,342.41 lakhs for FY 23-24 due to increase in value of Unbilled revenue, Retention & Withheld money for project execution, prepaid expenses, balance with revenue authorities and advances to suppliers. As is evident from explanations provided the company's turnover has increased in FY 23 and FY 24 and accordingly larger amount of funds are blocked in Other Financial & Other Current Assets
4	Trade Payables	Past trend of trade payable holding days (calculated as closing trade payables as on balance sheet date divided by cost of material consumed and cost of civil construction work over 365 days) has been in range 88 to 171 days during the last three financial years. However, the Company intends to reduce trade payable in the range of 45 days for Fiscal 2025 to avail cash discount as well as competitive purchase price to increase overall profitability of our Company. The Company plans to streamline its payable processes to its vendors enabling it to negotiate for better rates and thereby the holding levels are expected to reduce to 45 days Fiscal 2025. Additionally, prompt payments empower us to negotiate more favorable terms and prices, fostering stronger supplier relations and bolstering our bottom line. Sundry Creditors has increased from ₹3,536.72 lakhs for FY 2021-22 to ₹9,752.40 lakhs for FY 2022-23 due to increase in purchases for project execution. Moreover, the company raised ₹5810 lakhs pursuant to private placement during FY 23-24 and with additional fund flow the company attempted to make faster and smoother payments to Sundry Creditors to avail



		upfront discounts and competitive pricing. Trade payables increased from ₹9,752.40 lakhs for FY 2022-23 to ₹16,304.84 lakhs for FY 23-24.
5	Other Financial Liabilities, Other current liabilities, Provisions and Current Tax Liabilities (Net)	Other financial and current liabilities primarily include other expenses payable, mobilization advance, deferred revenue, security deposits, employee related liabilities, creditors other than suppliers & contractors, interest accrued but not due, provision for income tax. The company expect the growth in these liabilities to be in line with the expected growth in business. All the above mentioned liabilities increased from ₹1,665.60 lakhs for FY 2021-22 to ₹3,483.70 lakhs for FY 2022-23 due to increase in statutory dues, mobilization advance, employees related liabilities and other expenses payable. Further, these Liabilities increased from ₹3,483.70 lakhs for FY 2022-23 to ₹5738.49 lakhs for FY 23-24 due to increase in increase in statutory dues, mobilization advance, Security deposits, employees related liabilities, other expenses payable and Provision for income tax.

