

Press Release

SWACHATHA CORPORATION

November 13, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 10.00 crore bank facilities of SWACHATHA CORPORATION. The outlook is '**Stable**'.

Incorporated in 2001, Swachatha Corporation is a Karnataka-based proprietorship firm established by Mr C.V. Bhanumurthy Reddy. The firm is engaged in solid waste management and undertakes tender based contracts for manual sweeping, mechanised sweeping, door-to-door collection of municipal solid waste, transportation of municipal solid waste and drain cleaning in Karnataka, Tamil Nadu, Pondicherry, Andhra Pradesh and Gujarat. The firm has capacity of handling ~ 1500 MT tons of solid waste per day.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The proprietor, Mr C.V. Bhanumurthy Reddy possesses more than three decades of experience in the aforementioned industry.

- **Long term agreements with municipal corporations**

The firm has entered into long term agreements with municipal corporations of Pondicherry, Ahmedabad and Surat. The agreements are for 10 years with Pondicherry Municipal Corporation and 5 years for Ahmedabad and Surat Municipal Corporations wherein SC will collect municipal solid waste from households, community dustbin, open waste collection sites and transfer to designated waste disposal site. Also, the firm has been catering to the National Institute of Mental Health and Neurosciences (NIMHANS) for housekeeping services since the last five years. The contract is renewed on a yearly basis. SC, over the years has established healthy relations with municipal corporations and other entities for solid waste disposal and housekeeping services resulting in repeat orders. The firm has agreements with municipalities of Pondicherry, Ahmedabad, Surat, Vadadora, Bellary, Bangalore to name a few. The firm has also received tender for operation and maintenance of vehicles for solid waste management of Surat Municipal Corporation in August, 2017.

- **Healthy financial risk profile**

The healthy financial risk profile is marked by comfortable net worth, low gearing, and healthy debt protection metrics. The net worth is comfortable at Rs 18.21 crore as on 31st March 2017 (Provisional) compared to Rs 19.35 crore in the previous year. The debt-to-equity ratio improved from 0.62 times on 31 March, 2016 to 0.64 times as on 31 March, 2017 (Provisional). The firm reported interest coverage ratio of 13.64 times in FY2017 (Provisional) as against 8.60 times in FY2016. The net cash accruals to Total Debt (NCA/TD) stood at 0.52 times in FY2017 (Provisional). The DSCR stood at 11.10 times in FY2017 (Provisional).

- **Growth in operating income**

The firm has registered healthy growth in operating income to Rs 60.16 crore in FY2017 (Provisional) from

Rs 32.35 crore thereby registering compounded annual growth rate of 36.37 per cent in the last two years. The growth in revenue is mainly on account of the ability of the firm to receive new tenders from municipal corporations of Pondicherry, Vadadora, Bellary and Tirumala Tirupati.

Weaknesses

- **Moderate scale of operations**

The scale of operations is moderate marked by revenue of Rs 60.16 crore in FY2017 (Provisional) and Rs 49.74 crore in FY2016. The firm registered revenue of Rs 21 crore till July 2017.

- **Customer concentration risk**

The firm faces customer concentration risk with over 80 per cent of revenue coming from three municipalities (Pondicherry, Ahmedabad and Vadodara) in FY2017 (Provisional) and FY2016.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that SC will maintain a stable outlook and continue to benefit over the medium term from the promoters' vast experience in the solid waste management industry. The outlook may be revised to 'Positive' if the firm achieves more than envisaged sales and profitability while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the firm fails to achieve growth in revenue and the financial risk profile deteriorates owing to the higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), the firm reported Profit after tax (PAT) of Rs 2.59 crore on operating income of Rs 60.16 crore as against PAT of Rs 1.51 crore on operating income of Rs 49.74 crore in FY2015-16.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Services Sector - <https://www.smera.in/criteria-services.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure - Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A3
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA A3

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