

Press Release

Swachatha Corporation

December 07, 2018



Rating Downgraded and Assigned

Total Bank Facilities Rated*	Rs.12.50 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (downgraded from ACUITE BBB-/Stable)
Short Term Rating	ACUITE A4+ (downgraded from ACUITE A3)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BB+** (read as ACUITE double B plus) from '**ACUITE BBB-**' (read as ACUITE triple B minus) to the Rs.4.50 crore bank facilities. Acuité has assigned the long term rating of '**ACUITE BB+** (read as ACUITE double B plus) to the Rs.1.50 crore bank facilities. The outlook is '**Stable**'.

Further, Acuité has downgraded the short term rating to '**ACUITE A4+** (read as ACUITE A four plus) from '**ACUITE A3**' (read as ACUITE A three) to the Rs.5.50 crore bank facilities. Acuité has assigned short term rating of '**ACUITE A4+** (read as ACUITE A four plus) to the Rs.1.00 crore bank facilities of Swachatha Corporation.

The rating downgrade reflects decline in revenues, deterioration in the profitability levels and increasing repayment obligations. However, rating continues to factor in efficient working capital management and long vintage of operations.

Established in 2001, Swachatha Corporation (SC) is a Bangalore based proprietorship entity promoted by Mr. C.V. Bhanumurthy Reddy. The entity is a contractor for solid waste management with Municipal Corporation in Karnataka, Tamil Nadu, Puducherry, Andhra Pradesh, and Gujarat among others. The company undertakes tender based contract for Municipal Waste Management (Manual sweeping, Mechanised sweeping, door to door collection of municipal solid waste (MSW), transportation of MSW and drain cleaning); and has current installed capacity for handling of ~1500 MT tons of waste per day.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SC to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SC is promoted by Mr. C.V. Bhanumurthy Reddy with around two decades of experience in the waste management handling business. The entity was established in 2001, and gradually expanded to the present handling capacity of 1500 tons per day. Experienced team of second line personnel and long vintage of operations helped the firm to build healthy relationship with its customers to ensure steady flow of business.

The firm has entered into long term agreements with municipal corporations of Pondicherry, Ahmedabad, Vadodara, Bangalore and Surat. The agreements are for 10 years with Pondicherry Municipal Corporation and 5 years with Ahmedabad, Vadodara, Bangalore 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. SC has an order book of

about Rs.80.00 crore for execution over a period of about 7-10 years. Acuité believes that promoter's extensive experience and signed long term agreements would aid the business risk profile of the firm over the medium term.

- **Comfortable working capital operations**

SC has comfortable working capital operations as evident from Gross Current Assets (GCA) of 85 days as on March 31, 2018 as against 73 days as on March 31, 2017. The comfortable GCA days were mainly due to moderate debtor levels and deposits with Municipal Corporations. The entity's debtors stood at 38 days as on March 31, 2018 and provides credit period of 30 days to its customers. About Rs.3.00 crore is kept with Municipal Corporations as security deposit / retention money for the signed contracts. Monthly billing and efficient collection management lead to moderate utilisation of working capital limits at about 90 percent over the past six months ended September 2018. Acuité believes that the working capital operations of the firm will remain comfortable as evident from the operating cycle of the firm.

- **Moderate financial risk profile**

SC's financial risk profile is marked by moderate gearing (debt-to-equity) and debt protection metrics. The gearing has deteriorated from 0.76 times as on March, 2017 to 0.97 times as on March, 2018 due to vehicles purchased by the company to the tune of Rs.7.00 crore. Net worth is moderate at Rs.17.05 crore as on March 31, 2018. SC's moderate net cash accruals and debt lead to moderate NCA/TD and interest coverage ratio of 0.33 times and 4.94 times in FY2018 vis-à-vis 0.42 times and 6.27 times in FY2017 respectively. The cash accruals are Rs.5.51 crore in FY2018, with continued debt for addition of vehicles lead to increasing repayment obligations of about Rs.3.00 crore, against Rs.1.80 crore per annum in the past. Acuité believes that with moderate cash accruals and no significant debt-funded capex plans, the financial risk profile of SC is expected to be at similar levels over the medium term.

Weaknesses

- **Moderate scale of operations and volatile profitability margins**

SC's revenues are moderate in solid waste management industry. Its revenues are at Rs.60.12 crore in FY2018, declined from Rs.66.40 crore in FY2017. Margins remained volatile over the years under review in the range of 10 percent to 14 percent. Acuité believes that sustaining the profitability while improving its revenues are key rating sensitivity factors.

Outlook: Stable

Acuité believes that SC will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability and improving the liquidity. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	60.12	66.40	48.15
EBITDA	Rs. Cr.	7.70	6.93	6.94
PAT	Rs. Cr.	1.63	1.96	1.61
EBITDA Margin	(%)	12.81	10.44	14.41
PAT Margin	(%)	2.72	2.95	3.34
ROCE	(%)	12.77	13.28	12.17
Total Debt/Tangible Net Worth	Times	0.97	0.76	0.62
PBDIT/Interest	Times	4.94	6.27	8.60
Total Debt/PBDIT	Times	2.12	1.70	1.71
Gross Current Assets (Days)	Days	85	73	106

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

None

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.acuite.in/criteria-default.htm>
- Entities in Services Sector -<https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
13-Nov-2017	Cash Credit	Long Term	4.50	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	4.50	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	1.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB+/ Stable (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+ (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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