

Press Release

SWACHATHA CORPORATION

December 30, 2019

Rating Reaffirmed



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 12.50 Cr. |
| Long Term Rating | ACUITE BB+ / Outlook: Stable |
| Short Term Rating | ACUITE A4+ |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 12.50 crore bank facilities of SWACHATHA CORPORATION (SC). The outlook is '**Stable**'.

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 standalone business and financial risk profile of SC to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

SC is promoted by Mr. C.V. Bhanumurthy Reddy who has an extensive experience of around two decades in 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. SC has an order book of about Rs.530.22 crore out of which value of work to be completed is around Rs.294.08 crore by FY2022-23.

Acuité believes that the firm will continue to benefit from its experienced management and established relationships with customers.

• Improvement in scale of operations

The firm has reported marginal revenue growth with compounded annual growth rate (CAGR) of around ~0.78 percent through the last three years ended 31 March, 2019. The firm reported moderate revenue growth of ~12.18 percent with operating income of Rs.67.44 crore in FY2019 as against operating income of Rs.60.12 crore in FY2018. However, the operating margins of the firm deteriorated to 10.61 percent in FY2019 from 12.81 percent in FY2018. Further Profit after Tax (PAT) margin stood at 3.86 per cent in FY2019 as against 3.88 per cent in FY2018.

Acuité believes that the scale of operations will improve further at the back of healthy order book.

- **Healthy financial risk profile**

The financial risk profile is healthy marked by moderate net worth and high debt protection measures and low gearing. The net worth of the firm is moderate at Rs.18.65 crore as on 31 March 2019 as against Rs.17.05 crore as on 31 March 2018. The gearing (debt to equity) of the firm stood at 0.81 times as on March 31 2019 as against 0.97 times as on March 31 2018. Total debt of Rs.15.13 crore consists of term loan of Rs.8.58 crore, unsecured loans of Rs.1.90 crore and working capital facility of Rs.4.64 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.98 times as on 31 March 2019 as against 1.22 times as on 31 March 2018. Interest Coverage Ratio (ICR) stood at 4.81 times in FY2019 as against 4.94 times in FY2018. However, it is still less than 6.27 times which was in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.38 times as on 31 March 2019 and as on 31 March 2018. Debt Service Coverage Ratio (DSCR) deteriorated to 1.61 times in FY2019 from 2.31 times in FY2018.

- **Comfortable working capital operations**

The working capital of SC is comfortable in nature marked by low Gross Current Asset (GCA) days of 77 for FY2019 as against 85 in the previous year. This is on account of inventory days which stood nil for FY2019 and for FY2018, further debtor days stood at 29 in FY2019 as against 38 in FY2018. However, the reliance on working capital facility is high, it is fully utilized on an average for last 6 months ending November, 2019.

Going ahead, the ability of the firm to efficiently manage its working capital requirements will remain the key rating sensitivity.

Weaknesses

- **Tender based business**

Major business is bagged through open tenders. Hence, the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. The firm has to do tendering on competitive prices; this may affect the profitability of the company. This has resulted in fluctuating operating profit margins.

Rating Sensitivity

- Increase in scale of operations coupled with improvement in profitability.
- Deterioration in financial risk profile.

Material Covenants

None.

Liquidity Position: Adequate

SC has adequate liquidity marked by net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.5.77 crore in FY2019 as against Rs.6.21 crore in FY2018 and Rs.5.88 crore in FY2017, while its maturing debt obligation was around Rs.3.00 for FY207-19. The firm's working capital operations are comfortable marked by gross current asset (GCA) days of 77 in FY2019. Further, the reliance on working capital borrowings is high, the cash credit limit in the firm remains fully utilized during the last 6 months' period ended November, 2019. The firm has maintained unencumbered cash and bank balances of Rs.2.30 crore as on March 31, 2019. The current ratio of the firm stands at 1.95 times as on March 31, 2019.

Outlook: Stable

Acuite believes that SC will maintain a 'Stable' business profile in the medium term, while benefitting from its experienced management and growth in operations. The outlook may be revised to 'Positive' if SC shows significant improvement in financial risk profile and revenues while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in-case of further deterioration in financial risk profile.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 67.44 | 60.12 |
| PAT | Rs. Cr. | 2.60 | 2.34 |
| PAT Margin | (%) | 3.86 | 3.88 |
| Total Debt/Tangible Net Worth | Times | 0.81 | 0.97 |
| PBDIT/Interest | Times | 4.81 | 4.94 |

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

None.

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|--|
| 07-Dec-2018 | Cash Credit | Long Term | 4.50 | ACUITE BB+ / Stable (Downgraded from ACUITE BBB- /Stable) |
| | Cash Credit | Long Term | 1.50 | ACUITE BB+ / Stable (Assigned) |
| | Bank Guarantee | Short Term | 4.50 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Bank Guarantee | Short Term | 2.00 | ACUITE A4+ (Assigned) |
| 13-Nov-2017 | Cash Credit | Long Term | 4.50 | ACUITE BBB-/Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 4.50 | ACUITE A3 (Assigned) |
| | Proposed Bank Guarantee | Short Term | 1.00 | ACUITE A3 (Reaffirmed) |

*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 | 6.00 | ACUITE BB+ / Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 6.50 | ACUITE A4+ (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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