

Press Release

Rochem Separation Systems India Private Limited

July 08, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 121.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable (Reaffirmed; Outlook Revised from Negative)
	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (read as **Acuite A three plus**) on the Rs. 121.00 crore bank facilities of Rochem Separation Systems (India) Private Limited (RSSPL). The outlook is revised to '**Stable**' from '**Negative**'.

The revision in outlook is primarily on account of lower than expected negative impact of COVID 19 pandemic and subsequent lockdowns on the overall operating performance of RSSPL. It also takes into account the extensive experience of RSSPL's management and healthy financial risk profile. It also draws comfort from RSSPL's diverse stream of revenues and clientele. However the rating remains constrained by the high working capital intensity of RSSPL's operations with Gross Current Assets (GCA) of over 300 days in FY2021 (Provisional). The company's ability maintain its working capital cycle without further elongation will continue to remain a key rating sensitivity.

About the Company

Mumbai based RSSPL was incorporated in 1991 by the Late Mr. Kamlesh Goel as a joint venture between the Concord Enviro group and Rochem Separation Systems AG, Germany (Rochem AG). Later in 2006, the Goel family bought the entire stake of Rochem AG in RSSPL. Currently, RSSPL is a wholly owned subsidiary of Concord Enviro Systems Private Limited (CESPL). The directors of the company are Mr. Prayas Goel, Mr. Prerak Goel and Mr. Alipi Sharma. RSSPL provides environmental engineering solutions with focus on waste water recycling, desalination and industrial solid waste management. The company is engaged in researching, developing, manufacturing and installing its Advanced Membrane Module Technology Based Separation Systems for recovery and reuse of difficult waste water. Further, in addition to this the company provides operation and maintenance services for the same.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of RSSPL while arriving at the rating.

Key Rating Drivers

Strengths

- **Extensive experience and established track record of the management**

RSSPL was incorporated in 1991, thus the company has an operational track record of around three decades in industrial machinery industry. The second generation of Goel family, Mr. Prayas Goel (Managing Director) and Mr. Prerak Goel (Director) have an experience of over two decades in the same line of business. The long track record of operations and experience of management has helped the company develop healthy relationships with its customers and suppliers.

Acuité believes that RSSPL will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Diverse portfolio of revenue streams and clientele**

RSSPL provides environmental engineering solutions with focus on waste water recycling, desalination

and industrial solid waste management. The company is engaged in researching, developing, manufacturing and installing of Advanced Membrane Module Technology Based Separation Systems for recovery and reuse of difficult waste water. Further, in addition to this the company also provides operation and maintenance services and trades in spare parts used in the projects it undertakes. Its revenue from manufacturing, services and trading stood at Rs. 162.62 crore, Rs. 98.20 crore and Rs. 30.49 crore respectively. The same stood at Rs. 182.73 crore, 98.11 crore and Rs. 53.14 crore respectively in the previous year. The diverse stream of revenues gives some mitigation against any volatility in revenue from new orders. In FY2021 the revenue from services has remained stable despite a decline in overall revenue on account of adverse impact of COVID 19 pandemic and subsequent lockdowns. The company caters to diversified industries and reputed clientele which includes government (25 percent) as well as corporate customers (75 percent). The company caters to both public (government and defense) and private customers such as Indian Navy, Indian Oil Corporation, ACC Limited, Jubilant Life Sciences Limited and Lupin Limited, to name a few.

Acuité believes that RSSPL will benefit from its diverse revenue streams and clientele.

• **Healthy financial risk profile**

The financial risk profile of the company remained healthy marked by adequate net worth, debt protection metrics and coverage indicators. The net worth of RSSPL stood at Rs. 130.05 crore as on 31 March 2021 (Provisional) as against Rs. 116.15 crore as on 31 March 2020. The gearing (debt-equity) stood at 0.57 times as on 31 March 2021 (Provisional) as against 0.69 times as on 31 March 2020. The total debt of Rs. 73.70 crore as on 31 March 2021 (Provisional) mainly comprises of Rs. 51.19 crore of working capital borrowings, Rs. 16.19 crore of term loans. The coverage indicators are comfortable reflected in the Interest Coverage Ratio (ICR) which stood at 2.97 times for FY2021 (Provisional) as against 2.92 times for FY2020. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.30 times in FY2021 (Provisional) and 0.24 times in FY2020. Debt to EBITDA stood at 2.19 times in FY2021 (Provisional) as against 2.35 times in FY2020. The gearing is expected to be in range of 0.50 – 1.00 times for FY2022-24 as there are no significant capex plans funded by debt. Coverage indicators are expected to improve on account of improved operating performance.

Acuité believes that the financial risk profile of the company is expected to remain stable in absence of any major debt funded capex in near to medium term.

Weaknesses

• **Working capital intensive nature of operations**

The company's operations are working capital intensive marked by Gross Current Assets (GCA) of 314 days for FY2021 (Provisional) as against 324 days in the previous year. Receivable period stood at 192 days for FY2021 (Provisional) as against 175 days for FY2020. This is primarily because ~64 percent of total revenue is generated in last two quarters of the financial year, the elongation of working capital cycle mainly pertains to year end phenomenon. Also ~25 percent of orders come from Government entities where debtor days are longer vis-à-vis corporate clients. Inventory level stood at 123 days for FY2021 (Provisional) as against 140 days for FY2020. This is primarily because the company also provides operational and maintenance service and trades in spare parts for which has to maintain some inventory above the normal requirement for its projects.

Acuité believes RSSPL's ability to maintain its working capital cycle and restrict further elongation will remain a key monitorable.

• **Highly competitive and fragmented nature of industry**

RSSPL operates in a highly fragmented industry with large number of organized and unorganized players present in the market. However the risk is mitigated to an extent on account of established track record of operations.

Liquidity Position: Adequate

RSSPL generated cash accruals of Rs. 16.22 – 22.30 crore for FY2019-21 while its maturing debt obligations were in the range Rs. 0.35 – 6.32 crore for the same period. The cash accruals of the company are estimated to remain in the range of Rs. 20.77-25.59 crore during 2022-24 against repayment obligations in the range of 6.00 -4.00 crores. However, the company's operations are working capital intensive

marked by gross current asset (GCA) days of 314 days for FY2021 (Provisional). This makes the company dependent on bank borrowing to fund its working capital requirement. Average bank limit utilisation stood at ~86% for period ended February 2021. The company maintained unencumbered cash and bank balances of Rs. 0.30 crore as on 31 March 2021 (Provisional). The current ratio stands at 1.49 times as on 31 March 2021 (Provisional). RSSPL's overall liquidity position will remain adequate over the medium term on account of adequate cash accruals to maturing debt obligations constrained to some extent on account of working capital intensive operations.

Rating Sensitivities

- Ability to maintain its working capital cycle and restrict further elongation of receivable position
- Ability to maintain its scale of operations without deterioration in its profitability

Material Covenants

None

Outlook: Stable

Acuité believes that RSSPL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and 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 significant elongation in working capital cycle affecting its liquidity position.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	293.89	335.39
Profit after Tax (PAT)	Rs. Cr.	12.03	10.88
PAT Margin	(%)	4.09	3.24
Total Debt/Tangible Net Worth	Times	0.57	0.69
PBDIT/Interest	Times	2.97	2.92

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

Not applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
16-Apr-20	Cash Credit	Long Term	9.00	ACUITE BBB/Negative (Rating Reaffirmed Outlook: Revised from Stable to Negative)

	Cash Credit	Long Term	5.00	ACUITE BBB/Negative (Rating Reaffirmed Outlook: Revised from Stable to Negative)
	Cash Credit	Long Term	17.00	ACUITE BBB/Negative (Rating Reaffirmed Outlook: Revised from Stable to Negative)
	Cash Credit	Long Term	23.50	ACUITE BBB/Negative (Rating Reaffirmed Outlook: Revised from Stable to Negative)
	Term Loan	Long Term	0.15	ACUITE BBB/Negative (Rating Reaffirmed Outlook: Revised from Stable to Negative)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	14.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	4.50	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	8.00	ACUITE A3+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Short Term	3.90	ACUITE A3+ (Reaffirmed)
	Proposed Bank Facility	Long Term	10.95	ACUITE BBB/Negative (Rating Reaffirmed Outlook: Revised from Stable to Negative)
25-Mar-2019	Cash Credit	Long Term	9.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	21.50	ACUITE BBB/Stable (Assigned)
	Cash Credit	Long Term	23.50	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	0.15	ACUITE BBB/Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	11.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	1.40	ACUITE A3+ (Assigned)

	Letter of Credit	Short Term	8.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Short Term	10.00	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	6.45	ACUITE BBB/Stable (Assigned)

***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	9.00	ACUITE BBB/Stable (Rating Reaffirmed Outlook: Revised from Negative to Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Rating Reaffirmed Outlook: Revised from Negative to Stable)
Cash Credit***	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE BBB/Stable (Rating Reaffirmed Outlook: Revised from Negative to Stable)
Cash Credit^	Not Applicable	Not Applicable	Not Applicable	23.50	ACUITE BBB/Stable (Rating Reaffirmed Outlook: Revised from Negative to Stable)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	2.35	ACUITE BBB/Stable (Rating Reaffirmed Outlook: Revised from Negative to Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Rating Reaffirmed Outlook: Revised from Negative to Stable)
Letter of Credit**	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3+ (Reaffirmed)
Letter of Credit*	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A3+ (Reaffirmed)
Letter of Credit***	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A3+ (Reaffirmed)

Letter of Credit^	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	10.65	ACUITE A3+ (Reaffirmed)

*Fully interchangeable with WCDL and FCNR. Fully interchangeable with BG

**Sublimit of Rs. 5.00 crore Buyer Credit

*** Fully interchangeable with LC. Fully interchangeable with BGs

^Fully interchangeable with NFB. Fully interchangeable with BG

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Parth Pandit Senior Analyst - Rating Operations Tel: 022-49294032 parth.pandit@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022- 49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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