

Press Release

Sarjan Watertech India Private Limited

June 29, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE B/Stable)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE B**' (read as **ACUITE B**) and reaffirmed the short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs. 10.00 crore bank facilities of Sarjan Watertech India Private Limited (SWIPL). The outlook is '**Stable**'.

The upgrade is on account of improvement in operating income and healthy order book position of Rs. 45.28 crore to be executed by FY2020 and hence showing revenue visibility over near to medium term. Further, improvement in working capital operations marked by Gross Current Asset (GCA) of 300 days for FY2019 (Prov.) as against 502 days for FY2018.

Ahmedabad based, SWIPL was established as a proprietorship firm in 2003 and later changed the constitution into private limited company in 2008. The company is promoted by Mr. Sunil Trivedi and his family. SWIPL is an ISO:9001-2015 certified company that manufactures, assembles, supplies and exports water purification and treatment systems and allied accessories for domestic, commercial and industrial use. Also, the company has BIS -14724 and BIS-16240 certifications in UV water purifier and RO water purifier respectively.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SWIPL to arrive at the rating.

Key Rating Drivers

Strengths

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

SWIPL was established in 2003 as a partnership firm and changed its constitution into private limited company in 2008, thus the company has an operational track record of over a decade in industrial machinery industry. The Directors of the company have an experience of around three decades in the aforementioned line of business. The long track record of operations and experience of management have helped the company develop healthy relationships with its customers and suppliers. Acuite believes that SWIPL will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Reputed clientele**

The company caters to reputed clientele such as Tata Chemicals Limited, Eureka Forbes Limited, Flipkart India Private Limited and HSIL Limited, among others. The company has healthy relations with their customers.

Weaknesses

- **Modest scale of operations**

The company has modest scale of operations marked by operating income of Rs. 14.23 crore in FY2019 (Prov.) as against Rs. 8.51 crore in FY2018. Acuite believes that the revenues are expected to improve on account of orders in hand of Rs. 45.28 crore which is to be executed by FY2020 providing revenue visibility over near to medium term.

- **Below-average financial risk profile**

The financial risk profile of the company stood below average marked by below average net worth, debt protection metrics and coverage indicators. The net worth of SWIPL stood low at Rs. 3.53 crore as on 31 March, 2019 (Provisional) as against Rs. 2.85 crore as on 31 March, 2018. The gearing (debt- equity) stood at 2.26 times as on 31 March, 2019 (Provisional) as against 2.50 times as on 31 March, 2018. The total debt of Rs. 7.96 crore as on 31 March, 2019 (Provisional) mainly comprises Rs.1.00 crore of preference share capital, Rs. 5.26 crore of working capital borrowings, Rs. 0.04 crore of long term debt and Rs. 1.66 crore of unsecured loans. Further, the coverage indicators stood average marked by Interest Coverage Ratio (ICR) which stood at 1.62 times for FY2019 (Provisional) as against 1.58 times for FY2018. Debt to EBITDA stood high at 5.59 times in FY2019 (Provisional) as against 5.28 times in FY2018. Acuité believes that the financial risk profile of the company is expected to remain below average backed by average net cash accruals and in the absence of any major debt funded capex in near to medium term.

- **Working capital intensive operations**

The company has working capital intensive nature of operations marked by Gross Current Assets (GCA) of 300 days for FY2019 (Provisional) as against 502 days for FY2018. This is mainly due to high inventory level which stood at 184 days for FY2019 (Provisional) as against 305 days for FY2018. The company needs to maintain high inventory stock like consumable items required (such as RO filters) and raw material stock which are imported for manufacturing and assembling. The debtors stood at 63 days for FY2019 (Provisional) as against 143 days for FY2018. Acuité believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

- **Profitability susceptible to fluctuations in raw material prices and forex rates**

Around 50 percent of raw materials used in assembling water treatment machines are imported by the company. The raw material comprises membrane booster pumps and RO filters that constitute around 80 percent of the total cost of sales. Hence, fluctuations in raw material prices or forex rates can have substantial effect on the profitability of the company.

Liquidity Position

SWIPL has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 0.46 crore for FY2019 (Provisional) while its maturing debt obligations were Rs. 0.07 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 2.40 crore to Rs. 3.10 crore during 2020-22 against no repayment obligation during the same period. The company has working capital intensive operations as marked by high GCA days of 300 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.30 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.47 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accruals with high GCA days and almost full utilization of cash credit limit.

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of its experienced management, reputed clientele and healthy order book position. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. 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 deterioration in the firm's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	14.23	8.51	9.38
EBITDA	Rs. Cr.	1.42	1.34	1.16
PAT	Rs. Cr.	0.28	0.14	0.13
EBITDA Margin	(%)	9.96	15.79	12.36
PAT Margin	(%)	1.99	1.70	1.39
ROCE	(%)	11.58	11.54	9.41
Total Debt/Tangible Net Worth	Times	2.26	2.50	4.04
PBDIT/Interest	Times	1.62	1.58	1.63
Total Debt/PBDIT	Times	5.59	5.28	6.89
Gross Current Assets (Days)	Days	300	502	374

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
05-Jun-2018	Cash Credit	Long Term	5.00	ACUITE B / Stable (Upgraded from ACUITE B-/ Stable)
	Term Loan	Long Term	0.42	ACUITE B / Stable (Upgraded from ACUITE B-/ Stable)
	Proposed Long Term Loan	Long Term	3.08	ACUITE B / Stable (Upgraded from ACUITE B-/ Stable)
	Letter of Credit	Short Term	1.50	ACUITE A4 (Reaffirmed)
20-Apr-2017	Term Loan	Long Term	0.42	ACUITE B- / Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE B- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	3.08	ACUITE B- / Stable (Assigned)
	Letter of Credit	Short Term	1.50	ACUITE A4 (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	5.00	ACUITE B+ / Stable (Upgraded from ACUITE B/ Stable)
Proposed	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE B+ / Stable (Upgraded from ACUITE B/ Stable)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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