

February 10, 2023

Transwater System Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]B+ (Stable); assigned
Total	-	

*Instrument details are provided in Annexure I

Rationale

The assigned rating derives comfort from the experience of the promoters of Transwater System Private Limited (TSPL) in the waste-water treatment industry. The rating also factors in the improving sales and medium-term revenue visibility offered by the offtake agreements with its customers for water recycling. The rating positively factors in the company's comfortable capital structure with limited dependence on external borrowings.

The rating, however, is constrained by the company's small scale of operations that limits its financial flexibility and the volatile profit margins in the past.

The Stable outlook reflects ICRA's opinion that TSPL's credit profile is expected to remain stable, backed by the expected improvement in its scale of operations and a comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Experience of promoter in waste water management - The promoter has over a decade's experience in the water treatment industry. The company is involved in the assembling and sale of various waste water treatment equipment for residential as well as industrial purpose. The company has developed the water treatment plants in-house and has also applied for patents. The equipment developed by the company is highly efficient and cost effective.

Revenue visibility due to offtake agreement with customers - The company has entered into agreements with various clients for whom TSPL has installed water treatment equipment and charges a fixed cost per month based on the minimum volume of water recycling agreed per day. This ensures revenue visibility for TSPL. About ~37% of the sales is derived from water treatment services and the balance ~62% is from the sale of products (RO systems for residential and industrial use). However, timely receipts from customers remain crucial to maintain adequate liquidity and fund the incremental working capital requirements in the absence of alternative funding arrangements.

Credit challenges

Small scale of operations - TSPL's scale of operations has remained small over the years with revenue at Rs. 1.15 crore in FY2021 and Rs. 1.11 crore in FY2022. The revenue is expected to increase, going forward, with the expected execution of the orders in hand. Nevertheless, the overall scale will continue to be small. The small revenue base coupled with a small net worth base limits the financial flexibility and exposes the company to the risk of business downturn and its ability to absorb any temporary disruptions.

Volatile profit margins in the past - The profitability of the company has been fluctuating with an OPBITDA margin of 12.8% in FY2021 which declined to -2.1% in FY2022 due to higher raw material costs and fixed overheads. Till FY2021, the company

was recognising the cost of equipment for setting up waste-water treatment plants as revenue expenditure. However, it started capitalising the cost of equipment installed under the built and operate model in FY2022. With the expected improvement in sales and change in the expenditure recognition policy, the profit margins of the company are expected to improve, going forward.

Liquidity position: Adequate

The company's liquidity is adequate with sufficient cash and cash equivalents and limited dependence on working capital bank lines with no fixed repayment obligations. The company had an unencumbered cash and bank balance of Rs. 2.40 crore as on December 31, 2022.

Rating sensitivities

Positive factors – ICRA could upgrade TSPL's rating if the company demonstrates a significant increase in scale along with improvement in profit margins on a sustained basis.

Negative factors – Pressure on TSPL's rating could arise from a significant deterioration in the earnings or losses on a sustained basis. Any stretch in working capital cycle or a large debt-funded capex adversely impacting the liquidity may also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company.

About the company

Transwater System Private Limited (TSPL) provides water treatment and filtration solutions. The company caters to residential as well as commercial water treatment and filtration requirements. It is involved in the assembling and sale of various equipment such as sewage treatment plants (STP), industrial RO systems, water softeners, etc. TSPL's products and systems are most preferred for villas, farmhouses, apartments and layouts for treating, softening and conditioning incoming bore well or municipal water and for various segments like schools, colleges, hotels, hostels, hospitals, malls, IT parks, etc.

Key financial indicators (Audited)

TSPL Standalone	FY2021	FY2022
Operating income (Rs. crore)	1.15	1.11
PAT (Rs. crore)	0.11	0.09
OPBDIT/OI (%)	12.78%	-2.14%
PAT (%)	9.54%	7.74%
Total outside liabilities/Tangible net worth (times)	18.77	0.34
Total debt/OPBDIT (times)	1.86	-11.75
Interest coverage (times)	-	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Current rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 10, 2023			
1	Issuer rating	Long-Term	NA	-	[ICRA]B+ (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long term - Issuer rating	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	NA	NA	NA	NA	[ICRA]B+ (Stable)

Source: Company; Note: Amount in Rs. Crore

Annexure-II: List of entities considered for consolidated analysis-Not Applicable

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About ICRA Limited:

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