MVR Technology (Revised)

August 30,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	22.00	CARE BB; Stable	Assigned
Long Term / Short Term Bank Facilities	13.00	CARE BB; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of MVR Technology (MVR) are constrained by fluctuating operating margins exposed to variation in waste quantity and input cost, constitution as a partnership firm, stretched operating cycle, geographical concentration risk, exposure to receivables from municipal authorities and presence in highly competitive industry.

However, the weaknesses are partially offset by comfort from experienced and resourceful promoters, growing scale of operations for past 5 years ended FY24 [FY refers to period starting from April to March], however remained moderate, moderate capital structure and debt coverage indicators, established presence of partners in the business of waste management with stable industry outlook.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in TOI of the company to above Rs.200 crores along with improvement in PBILDT margins above 9% on a sustained basis.

Negative factors

- Decline in TOI of company by 30% or more.
- Any increase debt resulting in overall gearing deteriorating 1.50x on a sustained basis

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook on the ratings of MVR reflects CARE's expectation to sustain its stable financial risk profile and no significant increase in debt levels in medium term.

Detailed description of the key rating drivers:

Key weaknesses

Operating margins exposed to variation in waste quantity and input cost: The PBILDT margins of MVR remained rangebound from 6.55% to 9%. The volatility is on account of fluctuations in waste received and input costs. Furthermore, unanticipated increase in input costs may also impact margins in future.

Stretched albeit improvement in operating cycle: The operating cycle of the firm remained stretched at 132 days for FY24 on account of high collection period. However, the same is better compared to its peers in the industry. The company raises bills within a span of 2 months, basis on the completion of certain percentage of work and thereon which gets acknowledge by client after necessary inspection of work done by the respective departments. Post the inspection, department clears the payment within 1-2 months (maximum) by deducting certain percentage of bill raised (ranging from 10% of bill amount) in the form of retention money, which they refund post completion of defect liability period leading to elongated collection period of 99 days. The firm receives an average credit period of around 1-2 months from its suppliers. Despite the same, it intends to clear the creditor payments much quicker resulting in lower creditor days. The average utilization of working capital limits remained around 66.78% utilized for past 12 months ending March 31, 2024.

Constitution of the entity as a partnership firm: The firm is constituted as a partnership firm with inherent risks associated with limited financial flexibility, withdrawal of the partners' capital and the firm being dissolved upon the retirement/insolvency/passing of the partner due to the nature of constitution. The partners have infused funds and one instance of withdrawal of funds in the last 4 years ended FY24. Net infusion of funds stood at Rs.15.95 crore. The partner had confirmed that they are willing to support the business by way of fund infusion in case of any additional requirements.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Geographical concentration risk: The operations of MVR pertaining to FSTP project are restricted to single state of Rajasthan. However, the firm is participating in tenders of other municipal corporations given the expertise of firm in creating end to end infrastructure for the collection, storage, and treatment of the faecal sludge.

Exposure to receivables from municipal authorities: Given that the firm is currently executing orders for ULBs based in Rajasthan, there is an inherent risk of delays in recovery of outstanding amount from the municipal corporation. However, till date, the firm did not face any issues with respect to the collections received in the state of Rajasthan. The firm is also exploring to bag orders from local bodies of in different geographies which may expose them to the risk of delays in recoveries.

Competitive and fragmented nature of industry: Though the demand prospects in water and wastewater treatment plants, market is favourable in industry, the firm remains exposed to the competitive pressure from other established players. Furthermore, the construction industry is fragmented with large number of small and medium scale players. This along with the tender driven nature of the plant construction contracts leads to intense competition and puts pressure on the profitability margins of players.

Key strengths

Established presence of partners in the business of waste management: The firm is managed by M Venkateswara Rao and M Gowtham Srinivas. The partners have vast experience of over a decade in manufacturing of weighing scales and waste management industry. The firm has well experienced second line of management having experience of around one decade in their respective fields. Partners expertise and understanding of industry enables firm to bid for better tenders and maintain relations with its stakeholders. The activities carried out by the firm include collection and transportation (C&T) of FSTP, Mechanized Primary collection of Faecal sludge, treatment of sludge into green water, etc.

Moderate albeit growing scale of operation: The firm has been manufacturing weighing scales used to weigh children, Women, weigh bridges used to weigh trucks, etc. During FY22-23 the firm has voyaged into the Faecal sludge treatment plant (FSTP) project where the firm has to set up the FSTP Plant and carry the faecal sludge from surrounding areas to the treatment plant through trucks which are provided by government. This involves the setting up of machineries and other EPC work required for the plant.

The TOI of the firm has witnessed increasing trend since its inception. The firm has a moderate scale of operations with a total operating income (TOI) of Rs.141.55 crore and gross cash accruals (GCA) of Rs.8.52 crore respectively, during FY24 (Prov.). The firm had reported a revenue of Rs.58 crore in Q1FY25 which is about 23% of expected revenue for FY25. The firm projected a revenue of Rs.250 crore for FY25 given the existing orders in hand.

Further, the firm has an order book to construct and operate 31 Faecal Sludge Treatment Plants and 30-35 new sanitation projects which is expected to be around Rs.533.47 crore to be completed over next 2 years. This apart MVR will also receive O&M revenue of Rs.10.67 crore spread over a period of next 10 years.

Moderate capital structure and debt coverage indicators: As on March 31, 2024, the debt profile of the firm comprises of term loan of Rs. 2.03 crore and working capital borrowings of Rs. 44.78 crore. The increase in working capital requirement is towards increasing scale of operation and higher requirement of working capital for the FSTP project. The capital structure of the firm stood moderate as on the past four balance sheet dates ending March 31, 2024. The overall gearing ratio deteriorated and stood at 1.32x as on March 31,2024 as against 0.87x as on March 31,2023 on account of increase in working capital utilisations coupled with moderate networth base. Further, owing to stable profitability margins and limited debt levels, the debt coverage indicators of the firm stood moderate as marked by interest coverage ratio at 5.29x. Total debt to GCA remained high at 5.50x respectively for FY24.

Stable industry outlook: Urban India has made significant strides towards safe sanitation under the government's flagship Swachh Bharat Mission–Urban. However, delivering access to toilets or sewer connections is only a part of the solution. Without adequate and timely desludging of septic tanks and treatment of faecal sludge and septage it is dumped untreated in open fields and water bodies, exposing citizens to serious health and environmental hazards. Cognizant of the implications, conversations in urban sanitation have expanded beyond toilet infrastructure to safe desludging, treatment, and reuse of human waste. The National Faecal Sludge and Septage Management Alliance (NFSSMA) has actively supported the sanitation movement in India, by catalysing action towards safe and sustainable human waste management at the national, state, and city levels. Working in close partnership with the Government of India, the Alliance helped in accelerating the launch of the National Faecal Sludge and Septage Management (FSSM) policy in 2017. Since then, the Alliance has continued to work with the national, state and city governments to strengthen the foundation of urban India's faecal sludge management in urban India, especially championing inclusive, safe, and equitable sanitation approaches.

Given the far-reaching implications and multi-dimensional nature of FSSM, state, and city governments need to invest in sustained capacity-building efforts. Various training modules, designed for multiple stakeholders and curated to capture local contexts, NFSSM Alliance partners have collaboratively developed. These modules are readily available through the Sanitation Capacity Building Platform.

Liquidity: Adequate
The liquidity position of the firm remained adequate as characterized by moderate utilisation of working capital limits of around 68% for the past twelve-month ending March 31, 2024. The firm has low cash and bank balance of Rs.0.26 crore. Further, the firm has reported gross cash accruals to the extent of Rs.8.52 crore during FY24 as against the debt repayment obligation of Rs. 0.20 crore which provides sufficient cushion in case of any exigencies. GCA is expected increase going forward.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Utilities	Other Utilities	Waste Management

MVR Technology is a partnership firm established on June 30, 2019. The firm is managed by Mr. Mannava Venkateswara Rao and Mr. Mannava Gowtham Srinivas. MVR is engaged in manufacturing and sale of weigh bridges and its accessories, etc. and other allied activities. The firm majorly deals in manufacturing weighing scales used to weigh children, women, weigh bridges used to weigh trucks. This apart, the firm also entered into an execution of EPC works in the state of Rajasthan which involves construction of FSTPs and installation of required equipment in the plant. These orders are floated by Urban Local Bodies (ULBs) in the state of Rajasthan. Further MVR also does O&M for the project undertaken.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	Q1FY25 (UA)
Total operating income	70.03	141.55	58.00
PBILDT	6.06	10.50	NA
PAT	3.28	7.54	NA
Overall gearing (times)	0.87	1.32	NA
Interest coverage (times)	3.06	5.29	NA

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Infomerics has downgraded and moved the ratings assigned to the bank facilities of MVR Technology to the 'issuer non-cooperation category vide a press release dated March 20, 2024 on account of its inability to review in the absence of the best available information from the firm.

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	22.00	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	13.00	CARE BB; Stable / CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	22.00	CARE BB; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	13.00	CARE BB; Stable / CARE A4				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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