

Press Release

Rite Water Solutions India Private Limited

January 24, 2019

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs. 17.69 crore (Enhanced from Rs.12.50 crore)
Long Term Rating	ACUITE BBB+ / Outlook: Stable (Upgraded from BBB/Stable)
Short Term Rating	ACUITE A2 (Upgraded from A3+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 12.50 crore bank facilities of Rite Water Solutions India Private Limited (RWSI). The outlook is '**Stable**'.

Further, Acuite has assigned long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short-term rating to '**ACUITE A2**' (read as **ACUITE A two**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 5.19 crore bank facilities of RWSI. The outlook is '**Stable**'.

The rating upgrade is on account of consistent revenue growth with improvement in profit margins demonstrated by wide distribution network; and diverse channelising product catering to various sector. The revenues of the company has increased to Rs.57.29 crore for FY2018 from Rs.32.76 crore in the previous year, which is a 75 percent growth y-o-y. With current order book of Rs.265.00 crore, Acuite expected the revenues to grow in near to medium term. Further, it is expected that the financial risk profile and debt protection metrics of the company to remain healthy with adequate liquidity position.

The Nagpur based, RWSI was incorporated in 2004 and is engaged in the business of setting up of safe drinking water plants by way of establishing Community Water Centers and Water ATMs. These water treatment plants are based on clean technologies and products developed for removal of chemical contaminants from ground water. The company has its manufacturing unit located in Nagpur (Maharashtra).

RWSI has established its base by setting up water treatment plants across 1,000 villages in 7 states through associations with the concerned water departments of the state governments. The SIDBI Venture Capital (a wholly owned subsidiary of SIDBI) has acquired an equity stake of ~16.67 percent as on 31 March, 2018 in RWSI. Other than equity stake, SIDBI Venture Capital has also invested in RWSI by way of compulsory convertible preference shares and compulsory convertible debentures.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the RWSI to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and long track record of operations:

RWSI enjoys the leadership position in the Indian market because of specialised technology in potable water and water quality improvement solutions. The company is promoted by Mr. Vinayak Gan (Chairman & MD) with over three decades of experience in entrepreneurship and business management. In the past, he has been associated with Candy Filters (I) Private Limited as a project engineer for design and erection of water treatment plants and Steel Authority of India Limited for seven years. Mr. Vinayak Gan is supported

by his son, Mr. Abhijeet Gan (CEO). Acuite believes with its leadership position through specialised technology in potable water and water quality improvement solution, the company will be able to establish new centers in various states.

Consistent growth in revenues and healthy profitability:

The company has reported CAGR of 94 percent for the period under study from FY2015 to FY2018. The revenues stood at Rs.57.29 crore in FY2018 compared to Rs.32.76 crore in FY2017 and Rs.10.68 crore in FY2016. The improvement is on account of increase in the number of tenders allotted by the government post investment in the company by SIDBI Venture capital and new market of CSR projects. Further, the company has an order book of ~Rs. 265.00 crore (installation of plant Rs.195.00 crore and operational and maintenance Rs.70.00 crore) as on December 2018; of which, installation of plant are expected to be executed within next two years. The operating margins have improved and stood healthy at 15.50 percent in FY2018 compared to 12.82 percent in FY2017. The company posted profit after tax (PAT) margin of 12.19 percent in FY2018 against 8.79 percent in FY2017.

Comfortable financial risk profile:

The company's financial risk profile is comfortable marked by tangible net worth of Rs. 24.17 crore as on 31 March, 2018 compared to Rs.17.24 crore as on 31 March, 2017. The company's gearing stood at 0.10 times as on 31 March, 2018 as against 0.07 times as on 31 March, 2017. Furthermore, gearing is expected to remain healthy due to low dependency on external debt. The coverage ratios of the company stood healthy marked by healthy Interest coverage ratio (ICR) of 6.59 times and Debt Service Coverage ratio (DSCR) stood at 3.60 times on account of increase in profitability of the company and low debt availed by the company. The Total Outside Liabilities/Total Net worth (TOL/TNW) stood at 0.60 times as on 31 March, 2018 as against 0.45 times as on 31 March, 2017. Acuite believes that the financial risk profile of the company will remain comfortable in the absence of any major debt funded capex in near future and backed by healthy net cash accruals.

Process Automation:

The installed structures have inbuilt software operated using a SIM card which helps in online monitoring of the system performance. Parameters include operational hours, quality of water, defects if any are reflected on the central server via GPRS system. Live tracking aids in effective management of the entire process centrally.

Weaknesses**Modest scale of operation due to tender based nature of operations:**

The company has reported operating income of Rs.57.29 crore for FY2017 as against Rs.32.76 crore in the previous year. Revenues are highly dependent on the number and value of tenders floated by State Government. The success rate of tenders is around 60 percent. However from FY2018, the company also has orders in hand of Rs.265.00 crore as on December 2018, by way of CSR Projects undertaken for Private companies as well. Thus, revenues are expected to improve on year on year basis.

Working capital intensive nature of operations:

The operations of the company are working capital intensive with Gross Current Assets (GCA) of 190 days for FY 2018 as against 208 days in the previous year. The reason for high GCA days is due to the stretched debtor days at 141 for FY 2018 and high amount of Earnest Money Deposit to be maintained. However, the company is able to manage its working capital cycle effectively due to favorable credit period received from its suppliers with payable days at 83 for FY 2018.

Outlook: Stable

Acuite believes that RWSI will maintain stable business risk profile on account of its experienced management and current capital structure. The outlook may be revised to 'Positive' in case the company registers substantial increase in its profitability margins supported by healthy revenue growth and effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in the company's profitability margins or deterioration in the financial risk and liquidity profiles.

Liquidity profiles

RWSI has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.3.00 to Rs.5.00 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.04 to Rs.0.06 crore over the same period. The cash accruals of the group are estimated to remain around Rs.6.00 – 7.00 crore during 2019-21 while its repayment obligation are estimated to be around Rs. 0.04 to Rs.0.06 crore. The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 190 in FY 2018. But the company has low reliance on working capital borrowings, the cash credit limit in the group remains utilized at 25-30 percent during the last 12 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.1.47 crore as on March 31, 2018. The current ratio of the group stand healthy at 2.31 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	57.29	32.76	10.52
EBITDA	Rs. Cr.	8.88	4.20	0.95
PAT	Rs. Cr.	6.99	2.88	0.69
EBITDA Margin	(%)	15.50	12.82	9.02
PAT Margin	(%)	12.19	8.79	6.60
ROCE	(%)	40.78	26.06	14.69
Total Debt/Tangible Net Worth	Times	0.05	0.07	0.13
PBDIT/Interest	Times	6.59	3.60	4.37
Total Debt/PBDIT	Times	0.13	0.26	1.54
Gross Current Assets (Days)	Days	190	215	474

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

Not applicable

Any other information

SIDBI Venture Capital Limited (wholly owned subsidiary of SIDBI Limited – one of the promoter shareholders of Acuite Ratings and Research Limited) holds 16.67 % equity stake in RWSI. SIDBI Venture Capital Limited has also invested in RWSI by way of Compulsory Convertible Preference Shares and Compulsory Convertible Debentures. There are no common Chairman, Directors, Employees or Rating Committee members between Acuite Ratings & Research Limited and SIDBI Venture Capital Limited and/or RWSI.

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
23-12-2017	Cash Credit	Long Term	5.00	ACUITE BBB/ Stable (assigned)
	Bank Guarantee	Short Term	5.50	ACUITE A3+ (Assigned)
	Inland Letter of Credit	Short Term	2.69	ACUITE A3+ (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 BBB+/ Stable (upgraded from ACUITE BBB/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2 (upgraded from ACUITE A3+)
Inland Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.69	ACUITE A2 (upgraded from ACUITE A3+)

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About Acuité Ratings & Research:

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