

Press Release

Rite Water Solutions India Private Limited

January 31, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 21.00 crore (Enhanced from Rs.17.69 crore)
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short-term rating of '**ACUITE A2**' (**read as ACUITE A two**) on the Rs.21.00 crore bank facilities of Rite Water Solutions India Private Limited (RWSI). The outlook is '**Stable**'.

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 12 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

Acuité has considered the consolidated business and financial risk profiles of the Rite Water Solutions India Private Limited (holding company), Rite Waters India Private Limited (subsidiary) and Rite Water Lake City LLP (controlled entity) to arrive at the rating. The consolidation is on account of common management and strong operational synergies. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

RWSI enjoys the leadership position in the Indian market on account 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).

Acuité 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.

- **Healthy profitability**

RWSI's business risk profile is supported by over 80 percent of revenue from government entities and remaining 20 percent of revenue from private players for serving purpose of CSR activity. The company has reported flat revenue growth of Rs.57.88 crore for FY2019 as compared to Rs.57.29 crore in previous year. This is on account of slowdown in execution of government orders. However, in the current year, there have been traction in execution of orders reflected by revenue of Rs.54.58 crore for the period April to December, 2019 (Provisional). Further, the company has an order book of ~Rs.333.43 crore (installation of plant Rs.198.51 crore and operational and maintenance Rs.134.92 crore) as on April 2019; of which, installation of plant are expected to be executed within next two years.

The operating margins have improved and stood healthy at 20.87 percent in FY2019 compared to 15.50 percent in FY2018 on account of increase in the number of tenders from private players for CSR projects. The company posted profit after tax (PAT) margin of 16.37 percent in FY2019 against 12.19 percent in FY2018.

• **Healthy financial risk profile**

RWSI has healthy financial risk profile marked by healthy net worth, low gearing and healthy debt protection metrics.

The net worth stood at Rs.43.60 crore as on March 31, 2019, which has witnessed sequential improvement from Rs.24.17 crore as on March 31, 2018. The accretion to net worth was mainly on account of steady operating profitability leading to higher accretion to reserves and investments by SIDBI Venture Capital.

RWSI has followed a conservative financial policy in the past as reflected by its peak gearing of 0.07 times over the last three years through 2017-19. The gearing of the company stood low at 0.02 times, as on March 31, 2019 due to no significant debt. The same is expected remain in future on account of low dependency on external borrowings. The total outside liabilities to tangible net worth ratio also stood at around 0.34 times as on March 31, 2019. RWSI's total debt of Rs.1.03 crore as on March 31, 2019 (Rs.1.21 crore as on March 31, 2018) includes entirely term loans. The interest coverage ratio (ICR) of the company stood healthy at 5.36 times as on 31 March, 2019 and the net cash accruals to total debt stood healthy at 9.40 times as on March 31, 2019. The debt service coverage ratio (DSCR) stood at 5.15 times for FY2019. The company's annual net cash accruals (PAT + Depreciation) were ~Rs.9.69 crore for FY2019.

Acuité believes that RWSI will maintain a healthy financial risk profile on the back of gradual growth in revenue, sustenance of its profitability margins and no major capex plans over the medium term.

• **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 flat operating income of Rs.57.88 crore for FY2019 as against Rs.57.29 crore in the previous year. Revenues are highly dependent on the number and value of tenders floated by State Government. However from FY2019, the company also has orders in hand of Rs.333.43 crore as on April 2019, 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 281 days for FY 2019 as against 190 days in the previous year. The reason for high GCA days is due to the stretched debtor days at 185 for FY 2019 and high amount of deposits 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 154 for FY 2019. Acuité expects the company's operations to remain stretched on account of delay in receivables from government department.

Rating Sensitivities

- Substantial increase in scale of operations and profitability.
- Improvement in working capital cycle

Liquidity profiles: Adequate

RWSI has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.94 to Rs.9.69 crore during the last three years through 2017-19, while its maturing debt obligations were around of Rs.0.79 crore over the same period. The cash accruals of the company are estimated to remain around Rs.9.44 – 13.12 crore during 2020-22 while its repayment obligation are estimated to be around Rs.0.07 crore. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 281 in FY 2019. However, the company does not utilize working capital borrowings due to favorable credit period received from its suppliers. RWSI maintains unencumbered cash and bank balances of Rs.0.36 crore as on March 31, 2019. The current ratio of the company stand at 3.32 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments

over the medium term.

Outlook: Stable

Acuité 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 deterioration in company's liquidity profiles.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	57.88	57.29
PAT	Rs. Cr.	9.47	6.99
PAT Margin	(%)	16.37	12.19
Total Debt/Tangible Net Worth	Times	0.02	0.05
PBDIT/Interest	Times	5.36	6.59

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 Acuité 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 Acuité 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>
- Consolidation of entities- <https://www.acuite.in/view-rating-criteria-60.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
24-Jan-2019	Cash Credit	Long Term	5.00	ACUITE BBB+/ Stable (Upgraded from ACUITE BBB/Stable)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Inland Letter of Credit	Short Term	2.69	ACUITE A2 (Upgraded from ACUITE A3+)
23-Dec-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 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00 (Revised from Rs.10.00)	ACUITE A2 (Reaffirmed)
Inland Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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