



Press Release

Rite Water Solutions India Private Limited

May 03, 2021

Rating Upgraded

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

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 21.00 crore bank facilities Rite Water Solutions (India) Private Limited (RWSIPL). The outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgrade reflects healthy and improved profitability levels resulting in strong debt coverage indicators, healthy capital structure of the group and strong liquidity profile. The rating also takes into account its established presence in the industry, automated process leading to higher operational controls, healthy relationships with its reputed clientele and investment by SIDBI Venture Capital (a wholly owned subsidiary of SIDBI) in the form of equity, compulsory convertible preference shares and compulsory convertible debentures. Furthermore, the company got a project to develop "ENCEESPRAY"- an electrostatic disinfection machine for Covid-19 in partnership with University of Florida, under Ignition Grants Call for Proposals announced by the United States- India Science & Technology Endowment Fund (USISTEF). On the contrary, these rating strengths are partially offset by modest scale and working capital intensive nature of operations.

About the company

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

Acuite 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

- **Established presence in the industry with considerable experience of promoters**

RWSI enjoys the leadership position in the Indian market on account of specialized 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 specialized technology in potable water and water quality improvement solution, the group will be able to establish new centers in various states.

- **Augmentation in business risk profile**

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 group has reported healthy revenue growth of Rs. 82.39 crore for FY2020 as compared to Rs. 57.89 crore in previous year. However, in the current year, there have been limited traction in execution of orders reflected by revenue of Rs. 68.73 crore for the period April to March 2021. Further, the group has an order book of ~Rs. 240.87 crore (installation of plant Rs. 112.37 crore and operational and maintenance Rs.128.50 crore) as on February 2021; of which, installation of plant are expected to be executed within next two years.

The operating margins have improved and stood healthy at 21.29 percent in FY2021 compared to 20.76 percent in FY2019 on account of increase in the number of tenders from private players for CSR projects. The group posted profit after tax (PAT) margin of 17.47 percent in FY2020 against 16.26 percent in FY2019. Further, the group has been able to sustain healthy profitability margins in FY2021 despite covid-19.

- **Healthy financial risk profile**

The financial risk profile of RWSI is healthy marked by healthy net worth, healthy leverage levels and debt protection metrics.

The net worth of the group stood healthy at Rs. 57.89 crore as on March 31, 2020. The net worth levels have seen significant improvement over the last three years through FY2020 on account of healthy profitability and infusion of funds by SIDBI Venture Capital in FY2019 by way of 8% compulsory convertible debentures.

The group has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.05 times and 0.13 times as on March 31, 2020, over the past three years. The leverage levels have improved to 0.02 times as on March 31, 2020. The total debt of Rs. 1.03 crore as on 31 March 2020 comprised of vehicle loans of Rs. 0.23 crores, and unsecured loans of Rs. 0.81 crore.

Healthy profitability has led to healthy debt coverage indicators of the group marked by debt-service-coverage-ratio and interest coverage ratio of 4.92 times and 6.55 times, respectively as on 31st March, 2020. The group is in process of developing ENCEESPRAY which would be funded through grants to the extent of Rs. 65 lakh. Acuite believes the overall financial risk profile is expected to remain healthy 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 operations**

The group has reported healthy growth in operating income of Rs. 82.39 crore for FY2020 as against Rs.57.89 crore in the previous year. Revenues are highly dependent on the number and value of tenders floated by State Government. However, from FY2019, the group also has orders in hand of Rs.240.87 crore as on February 2021, 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 group are working capital intensive with Gross Current Assets (GCA) of 218 days for FY 2020 as against 263 days in the previous year. The reason for high GCA days is due to the stretched debtor days at 142 for FY2020 and high amount of deposits to be maintained. However, the group is able to manage its working capital cycle effectively due to favorable credit period received from its suppliers with payable days at 152 for FY 2020. Acuité expects the group's operations to improve though remain stretched on account of high debtors' collection period.

Rating Sensitivity

- Substantial improvement in scale of operations
- Significant deterioration in its working capital management
- Decline in profitability levels, thereby impacting group's debt coverage indicators

Material Covenants

None

Liquidity: Strong

The group has strong liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 14.58 crore during FY2020, while its maturing debt obligations were Rs. 0.07 crore for the same period. The group's working capital operations are intensive marked by GCA of 218 days for FY2020, however efficiently managed working capital has led to lower dependence on working capital borrowings and the limits remained negligibly utilized during the last twelve months till March 2021. Acuité believes that the liquidity of the group is likely to remain strong over the medium term on account of healthy cash accruals owing to healthy profitability 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 group 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 group's liquidity profiles.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	82.39	57.89
PAT	Rs. Cr.	14.39	9.41
PAT Margin	(%)	17.47	16.26
Total Debt/Tangible Net Worth	Times	0.02	0.02
PBDIT/Interest	Times	6.55	5.34

Status of non-cooperation with other CRA

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Consolidation Criteria - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
31-Jan-2020	Cash Credit	Long term	5.00	ACUITE BBB+/ Stable (Reaffirmed)
	Inland Letter of Credit	Short term	5.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee	Short term	11.00	ACUITE A2 (Reaffirmed)
24-Jan-2019	Cash Credit	Long term	5.00	ACUITE BBB+/ Stable (Upgraded)
	Inland Letter of Credit	Short term	2.69	ACUITE A2 (Upgraded)
	Bank Guarantee	Short term	10.00	ACUITE A2 (Upgraded)

***Annexure 1 – 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 A-/ Stable (Upgraded)
Inland Letter of Credit	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A2+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Upgraded)

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About Acuité Ratings & Research:

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