

Press Release

Rite Water Solutions India Private Limited

May 05, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.40	ACUITE A- Stable Assigned	-
Bank Loan Ratings	1.00	ACUITE A- Stable Reaffirmed Negative to Stable	-
Bank Loan Ratings	20.00	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	25.40	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs. 21.00 Cr bank facilities Rite Water Solutions (India) Private Limited (RWSIPL). The outlook is revised from '**Negative**' to '**Stable**'.

Acuite has also assigned its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 4.40 Cr bank facilities Rite Water Solutions (India) Private Limited (RWSIPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation and revision in outlook

The rating takes into account the augmentation in business risk profile with substantial improvement in revenues and profitability of the group. The revenue from operations of the group improved to Rs. 77.14 crores in FY22 as compared to Rs. 71.86 crores reflecting a growth of 7.34% during the period. Furthermore, the group also registered sales of Rs. 120.50 crores (Provisional) in FY23. The growth was majorly on account of higher execution of orders during the period. The group currently has an unexecuted order position of Rs.378.33 crores and around Rs.200 crores are on pipeline from the govt. Furthermore, the operating profit margin of the group stood at 21.38 percent in FY22 as compared against 24.54 percent for FY21. The revision in outlook reflects healthy execution of orders and timely exit of SIDBI as a promoter from the group as per decided timelines.

Acuite also take a note of the upcoming new investor "The Water Access Acceleration Fund" which is managed by Incofin Investment Management and is in very advanced stages of finalizing the definitive documents (Share Subscription Agreement and Share Holder's Agreement) which will result into their first investment in India and in Rite Water Solutions India Private Limited. All the agreements are currently under proposal stage and finalisation and expected infusion of funds by new investors will going to be a key monitorable going ahead. The rating is however constrained by working capital intensive nature of operations of the company, exposure to intense competition and inherent risks due to tender based operations.

About 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.

About the Group

The Rite Water group is a social enterprise that focuses on providing comprehensive, cost effective and sustainable solutions for safe drinking water to habitations across India. It builds and operates community water treatment and supply systems for villages and urban slums, in partnership with state governments and corporates. The company began with an electrolytic fluoride removal plant in Dongargaon village near Nagpur in 2008. It expanded to community solutions for treatment of all kinds of contaminants in drinking water.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has considered the consolidated business and financial risk profiles of two entities including Rite Water Solutions India Private Limited (holding company) and Rite Water Lake City LLP (controlled entity) to arrive at the rating. Earlier, the group consist of three entities Rite Water Solutions India Private Limited (holding company), Rite Waters India Private Limited (subsidiary) and Rite Water Lake City LLP (controlled entity). In FY21 Holding Company has impaired its investment in Subsidiary Company and Controlled entity. However holding company is still providing support to Controlled entity in form of loans and Advances. Accordingly, Rite Waters India Private Limited is removed from the group for consolidation in FY 22.

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).

Acuité believes with its leadership position through specialized technology in potable water and water quality improvement solution, the group will able to establish new centers in various states.

Improvement in operations and profitability of the group

The revenue from operations of the group improved to Rs. 77.14 Cr in FY22 as compared to Rs. 71.86 Cr reflecting a growth of 7.34% during the period. Furthermore, the group also registered sales of Rs. 120.50 Cr (Provisional) in FY23. The growth was majorly on account of higher execution of orders during the period. The group currently has an unexecuted order book position of Rs.378.33 Cr and around Rs.200 Cr are on pipeline from the govt. Furthermore, the

operating profit margin of the group stood at 21.38 percent in FY22 as compared against 24.54 percent for FY21. However, the operating profit margin improved to ~33.36% in FY23 (Prov.) on account of higher execution of & commissioning of Electro chlorination systems (EC). Also, the PAT margins of the group remained at 20.29% in FY22 as compared to 19.46% in FY21. The company has achieved EBITDA of Rs. 33.36% from April – March 2023. Acuité believes that RWSIPL will continue to benefit from extensive experience of the promoters and healthy order book position of the company over the medium term.

Healthy Financial Risk Profile

The group has a healthy financial risk profile marked by moderate net worth, low gearing and strong debt protection metrics. The tangible net worth of the group stood high at Rs. 71.48 Cr in FY22 as compared to Rs. 55.45 Cr in FY21. The gearing of the group remained low at 0.17 times in FY22 and 0.20 times in FY21 on account of low dependence of borrowings. The total debt of the group stood at Rs. 11.94 Cr as on 31st March 2022 as against Rs. 10.83 Cr as on 31st March 2021. The debt outstanding of the company comprises of long-term debt of Rs. 0.18 Cr and Rs. 11.76 Cr of short-term debt. The TOL/TNW also stood at 0.46 times as on 31st March 2022 as against 0.52 times as on 31st March 2021. The debt protection metrics remained comfortable with debt service coverage ratio of 12.60 times in FY22 and interest coverage ratio stood at 13.62 times in FY22.

Acuité believes that the financial risk profile of RWSIPL is expected to remain healthy on account of steady margins and conservative financial policy.

Debt Repayment and Change in organisation's structure

Samridhi Fund [SF], an Impact Fund [in which the investors were FCDO [90%] and SIDBI [10%]] had invested in the company an amount of Rs.20 crores in two rounds. In FY22 (June 2021), the Company redeemed Rs. 6 Cr. of 8% Debentures (along with redemption premium), which were invested by SF in the 2nd round. Samridhi Fund had a life of 7 years and asked the Company to buy-back/redeem their outstanding securities in Rite Water [Equity/CCPS/Debentures]. The Company submitted its offer to SIDBI in month of October 2022, which was modified in February 2023, the same was mutually agreed at an aggregate value of Rs.19 crores for total exit. The company paid the entire amount from internal accruals rather than any external borrowings. When SF had invested into the company, they had through SIDBI Venture Capital Limited [the investment manager], appointed one nominee director by the name Mr. R.V. Dilip Kumar. After the exit approval letter, he also tendered his resignation from the Board of Company w.e.f. 31st March, 2023. Currently, 100% shareholding remains with the original promoters of the group.

Weaknesses

Working Capital intensive in nature with elongated receivable days

The operations of the group are working capital intensive in nature marked by high GCA days of 310.09 days for FY22 as compared against 227.63 days for FY21. The high GCA days is majorly on account of high receivable days of 227 days for FY22 as against 189 days in FY21. The inventory levels of the company stood at 19 days during the same period compared against 16 days for FY21. The creditor days of the group stood at 182 days for FY22 as against 143 days for FY21. The working capital-intensive nature of operations also led to high reliance on working capital funding from lenders.

Acuité believes that the operations of the company will continue to remain intensive on account of high inventory days over the medium term.

Susceptibility to tender-based operations

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuité believes that the company's business profile and financial profile

can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Rating Sensitivities

- Substantial improvement in scale of operations
- Timely infusion of funds by the expected upcoming new investors
- Significant improvement in its working capital management

Material Covenants

None

Liquidity Position Adequate

The liquidity position of the group remains adequate reflected by adequate net cash accruals against matured debt obligations. The net cash accruals of the group stood at Rs.15.89 Cr in FY22 against matured debt obligations of Rs.9.50 Cr during the same period. Despite working capital intensive nature of operations, the average working capital utilization remained low at 24.14% in last nine months ended March 2023. Also, the group maintains a cash balance of Rs. 1.27 Cr as on 31st March 2022. Acuité believes that the liquidity position of the group will continue to remain adequate on account of adequate net cash accruals against matured debt obligations.

Outlook Revised: Negative to Stable

The revision in outlook takes into account the healthy execution of orders and time exit of SIDBI from the group as per stipulated timelines. It also takes into account the substantial improvement in revenues and profitability of the group. Acuité believes that RWSIPL will continue to benefit over the medium term due to its experienced management and established track record. The outlook may be revised to 'Positive' in case the group registers substantial growth in revenues, NetWorth and net cash accruals while maintaining healthy buffers in their working capital limits and improvement in working capital Operations . Conversely, the outlook may be revised to 'Negative' in case of weakening its capital structure, debt protection metrics and stretch in the liquidity position of the company.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	77.14	71.86
PAT	Rs. Cr.	15.65	13.99
PAT Margin	(%)	20.29	19.46
Total Debt/Tangible Net Worth	Times	0.17	0.20
PBDIT/Interest	Times	13.62	4.37

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Aug 2022	Bank Guarantee	Short Term	11.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE A- Negative (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Reaffirmed)
03 May 2021	Letter of Credit	Short Term	11.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Cash Credit	Long Term	5.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A2+ (Upgraded from ACUITE A2)
31 Jan 2020	Bank Guarantee	Short Term	11.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB+ Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	16.00	ACUITE A2+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE A- Stable Reaffirmed Negative to Stable
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.40	ACUITE A- Stable Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A2+ Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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