

Press Release

Hi Tech Sweet Water Technologies Private Limited

May 15, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 102.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.102.00 crore bank facilities of Hi Tech Sweet Water Technologies Private Limited (HSPL). The outlook is '**Stable**'.

Surat based, HSPL was incorporated in 1999 by Mr. Vijay Shah and Mr. Satish Agarwal. The company is engaged in the manufacturing of commercial, domestic and industrial RO (reverse osmosis) based water purification systems. It also provides end-to-end solution for RO technology-based water treatment plants including manufacturing membrane, filters RO platforms, installation and monitoring and after sales servicing.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the HSPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established position in the water purification systems segment**

HSPL has an established position in the water purification market of more than a decade supported by a strong distribution network. The promoters of the company have an experience of more than two decades in the industry. The experienced management and established market position have helped the company to establish long-term relationships with its suppliers and customers.

Acuité believes that HSPL will be able to sustain its existing business risk profile on the back of experienced management and its established market position.

- **Diversified revenue profile**

HSPL manufactures a range of products, from small purification systems for home use to those used for industrial applications. The company also manufactures water purifier components that help them to cater to OEM and replacement market. The revenue profile is diversified comprising of sales to government, corporates, retail and AMC services among others.

- **Moderate financial risk profile**

HSPL's financial risk profile is marked by moderate tangible net worth, debt protection measures and gearing. The net worth of the company stood at Rs.59.86 crores as on March 31, 2018 compared to Rs.52.02 as on March 31, 2017. The increase in net worth is on account of accretion to reserves. The company has followed an average leverage policy. The gearing has marginally increased to 1.81 times in FY2018 from 1.71 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.34 times as on 31 March, 2018 as against 2.31 times as on 31 March, 2017 and is estimated to improve and remain around 1-2 times over the medium term on the back of absence of any debt funded capex plans. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) stood at 2.11 times in FY2018 against 2.12 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times as on March 31, 2018 as against 0.11 times as on March 31, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.66 times for FY2018 as against 1.70 times in FY2017.

Acuité believes that the financial risk profile of HSPL will continue to remain moderate over the near to medium term on account of its healthy scale of operations, stable margins, moderate debt protection measures and moderate leverage policy.

Weaknesses

- **Working capital intensive operations**

The operations of HSPL are working capital intensive marked by gross current asset (GCA) of 177 days in FY2018 against 161 days in FY2017. The GCA days stood high because of inventory days of 95 and debtor days of 66 in FY2018. The inventory days of the company are on the higher side as they have to store the inventory at their retail outlets. Further, the working capital bank facilities are almost fully utilised for the six months ended on March 31, 2019.

- **Highly competitive industry**

The water purification industry is highly competitive marked by presence of many organised players in the industry. HSPL faces competition from large players such as Eureka Forbes, Kent RO System, Hindustan Unilever Ltd., Livepure Private Ltd., Ion Exchange, Whirlpool India Ltd. to name a few.

Liquidity Position:

Liquidity of HSPL is marked by net cash accruals of Rs.9-10 crore during the last two years. The cash accruals of the company are expected to improve and remain in the range of Rs.11-15 crore with repayment obligations in the range of Rs.1-2 crore. The company's working capital operations are intensive as evident by gross current asset (GCA) days of 177 in FY2018. The cash credit limit in the company remained utilised at around 99 percent during the last 6 months ended March 2019. The company maintains unencumbered cash and bank balances of Rs.17.20 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.44 times as on March 31, 2018. Acuité believes that the liquidity of the company will remain improve over near to medium term on account of increasing net cash accruals, low repayment obligations and absence of any debt funded capex plans.

Outlook: Stable

Acuité believes that HSPL will maintain a 'Stable' business risk profile over the medium term owing to its experienced management and established market position. The outlook may be revised to 'Positive' in case the group registers healthy growth in revenues while achieving sustained improvement in profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the company's revenues, deterioration in the company's financial risk profile, elongation in working capital cycle and adverse liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	320.38	302.62	273.21
EBITDA	Rs. Cr.	24.76	24.60	19.69
PAT	Rs. Cr.	8.49	7.93	5.90
EBITDA Margin	(%)	7.73	8.13	7.21
PAT Margin	(%)	2.65	2.62	2.16
ROCE	(%)	15.15	17.26	15.47
Total Debt/Tangible Net Worth	Times	1.81	1.71	1.75
PBDIT/Interest	Times	2.11	2.12	2.12
Total Debt/PBDIT	Times	4.16	3.54	3.85
Gross Current Assets (Days)	Days	177	161	159

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Service Entities - <https://www.acuite.in/view-rating-criteria-8.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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
20-Feb-2018	Cash credit	Long Term	70.00	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	1.52	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.48	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	20.00	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	70.00	ACUITE BBB- / Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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