

January 07, 2021 ^{Revised}

Aquatech Systems Asia Private Limited: Ratings reaffirmed; outlook revised to positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term TL	0.00	2.00	[ICRA]BB+; reaffirmed; outlook revised to Positive from Stable
Short-term fund based	30.00	30.00	[ICRA]A4+ reaffirmed
Long-term/Short term non fund based	175.00	110.00	[ICRA]BB+/ [ICRA]A4+; reaffirmed; outlook revised to Positive from Stable
Long-term/Short-term unallocated	30.00	99.50	[ICRA]BB+/[ICRA]A4+; reaffirmed; outlook revised to Positive from Stable
Short-term fund/non-fund based	6.50	0.00	[ICRA]A4+ reaffirmed
Total	241.50	241.50	

*Instrument details are provided in Annexure-1

Rationale

The outlook revision of Aquatech Systems Asia Private Limited (ASAPL) reflects ICRA's expectation that the company's credit profile will improve in the near to medium term, supported by strong order execution pipeline and restructuring of its loss-making subsidiaries that were a drag on its consolidated profits. ASAPL has a strong order book of over Rs. 1,215 crore (as of September 2020), constituting two major orders to be executed over two years, lending strong revenue visibility. However, timely execution of these orders along with timely revenue receipts remains crucial to sustain revenue growth and improve the company's liquidity position. Currently, its liquidity position remains supported by collections from customers, flexible credit terms from suppliers and external debt funding. ASAPL is expected to receive over Rs.60 crore in payment from one of its large customers in January 2021, which is expected to improve its liquidity position. The timely receipt of this amount remains crucial to support incremental working capital requirements in the absence of any additional financing arrangements. Additionally, the parent company, Aquatech International Corporation (AIC), is expected to infuse \$1 million in equity by June 2021, which is expected to ease liquidity further.

The rating continues to draw comfort from the promoters' extensive experience of over two decades in the water management business and the Aquatech Group's diversified presence across geographies. The rating takes comfort from the healthy track record of ASAPL in completing projects in a timely manner and within stipulated budgets, protecting profitability. The rating strengths are partially offset by working capital intensive operations, with sizable funds blocked in sticky receivables. The company registered losses at the consolidated level in CY2019 due to weak performance of overseas subsidiaries, leading to weak capitalisation and coverage indicators. According to the management, with the restructuring of its overseas business, the company's performance improved in CY2020. ASAPL's inflows are dependent on the domestic capex cycle and capex budget of end-user industries. Going forward, the company's ability to execute its order backlog in a timely manner and recover from sticky debtors, remain a key monitorable.

Key rating drivers and their description

Credit strengths

Strong order backlog in CY2020 ensures robust revenue growth in medium term - The company has won two big projects leading to a highest ever order backlog of Rs. 1,215 crore as of September 2020. Further, the company has bid for Rs. 632 crore worth of new projects that are primarily repeat projects for customers, which if awarded will further increase the order book. The strong order backlog provides healthy revenue visibility in the medium term, though its timely execution within the stipulated budget is a key monitorable.

Strong operational support from parent company - ASAPL provides design services to AIC and its subsidiaries in China and West Asia. The company earns an average revenue of about \$70,000 per month from AIC. Further, AIC subcontracts projects won in West Asia or the Asia Pacific to ASAPL. AIC has extended financial support in the form of performance guarantees on behalf of ASAPL and has provided corporate guarantees for all the bank facilities of ASAPL. Further, the parent company helps by extending credit periods for equipment sold to ASAPL. AIC has made equity investments to the tune of Rs. 3 crore in CY2018 and Rs. 7.5 crore in CY2019. Further, the parent company is expected to infuse equity to the tune of \$1 million by June 2021.

Established player with strong track record in the industrial waste-water treatment business - The company has been present in the water treatment industry since 1986. It mainly caters to the power, petrochemicals and refinery, oil and gas, infrastructure, mining and metal industries. The company has recently forayed into the municipal segment in India. ASAPL is one of the few companies to offer membrane-based as well as thermal water desalination technologies and solutions. The company has a strong track record of operations, with no payment history of liquidation damages or invocation of bank guarantees, as per the management.

Credit challenges

High working capital intensity, with sizable share of debtors outstanding for over a year - The company's debtor days are stretched at 151 days at the consolidated level. At the standalone level, the company has debtor days of 190 days, 34% of which are due by over 365 days. Recovery from sticky debtors is crucial for ASAPL to ease its liquidity position and improve overall cash flows.

Modest debt coverage indicators - ASAPL has recently reported operating losses because of losses in overseas subsidiaries, thereby resulting in weak profitability and debt coverage indicators at the consolidated level. Moreover, these losses in overseas subsidiaries were directly/indirectly funded by Indian operations, which pressurized the liquidity position of the Indian operations. Business restructuring of overseas operations along with improved performance of Indian operations should aid improvement in profitability and coverage indicators, going forward. Although overall interest coverage indicators are likely to remain below 2.0 times in the near term.

Presence in industrial segment, with effluent water treatment being key revenue driver, exposes ASAPL to vertical concentration risks; foray into municipal projects partially insulates revenues from customer concentration risks - ASAPL derives most of its revenues from industrial effluent water treatment projects in India. It derives minimal revenues from other segments such as desalination or sewage treatment, exposing it to vertical concentration risks. However, strong technological expertise, presence in design services, and operations in other segments in other geographies partially mitigate the risk. Further, in India, the company started working on Government projects in CY2019, partially insulating it from customer segment concentration risks. ASAPL bids for projects with municipal corporations with a healthy payment history.

Revenues susceptible to capex cycle; profit margins susceptible to changes in material prices given fixed price nature of contracts - The company's order inflows are dependent on the capex cycle and capex budget of end-user industries. It is also dependent on the regulations enforced in each country of operations. Since ASAPL enters into fixed-price contracts with its end-customers as well as suppliers, any upside in profit is due to bulk supplier discounts. The increase in profit from savings in material cost is recognised at the end of each project, elevating profits in that fiscal.

Liquidity position: Adequate

The company has a sanctioned fund-based limit of Rs. 30 crore upon which utilisation has averaged at 85% over the last 12 months. The company is expected to receive Rs. 60 crore from one of its clients by January 31, 2020, which will support its liquidity profile and fund incremental working capital requirements. Further, the parent company is expected to infuse \$1 million in equity in the next six months. Timely receipt of the said payment and equity infusion remains crucial to support ASAPL's liquidity profile. As on December 30, 2020, the company had a total unencumbered cash balance of Rs. 4.0 crore.

Rating sensitivities

Positive triggers – Substantial improvement in scale of operations through timely execution of projects, leading to improvement in profitability indicators and improvement in liquidity profile on a sustained basis

Negative triggers – Sharp deterioration in profitability and coverage indicators or deterioration in liquidity position due to buildup in receivables

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

ASAPL offers water and waste-water management solutions, such as pre-treatment, ion exchange, membrane processes and reverse osmosis. Based in Pune (Maharashtra), the company is a wholly-owned subsidiary of Aquatech International LLC, Pennsylvania, USA. ASAPL executes plants for waste-water industrial re-use, desalination, and zero liquid discharge, and specialises in turnkey (project-specific) solutions for water and waste-water management. In India, ASAPL derives most of its revenues from industrial waste-water treatment. The company caters to the industrial segment in India and the Government sector in West Asia. While AIC caters to the US and European markets, the West Asian and Asia Pacific markets are managed jointly by ASAPL and its subsidiaries.

Aquatech International LLC

Established in 1981, Aquatech International Inc., Pennsylvania, USA, is one of the major players in water purification technology for industrial and infrastructure markets, with focus on desalination, water recycle and re-use, and zero liquid discharge (ZLD). The company has a significant presence in North America, Europe, West Asia, South Asia and Asia Pacific. Moreover, is expanding its presence across the world through its subsidiaries.

In July 2016, Ecolab Inc., the parent company of NALCO Water, made an equity investment in AIC for acquiring a minority stake. Ecolab, listed on the New York Stock Exchange, is a global provider of water, hygiene and energy technologies as

well as a service provider to the food, energy, healthcare, industrial and hospitality markets. The strategic partnership between Ecolab and AIC will enable them to offer comprehensive end-to-end solutions to minimise net water usage and maximise process performance and productivity. While Ecolab stands to benefit from AIC's technological pedigree, AIC would profit from Ecolab's large customer base.

Subsidiaries:

- Aquatech Eastern FZE was established in December 2005 to cater to the West Asian market
- Wex Technologies Private Limited was incorporated in 2001 in Pune to manufacture chemicals for water treatment
- Incorporated in 2010 in Pune, Qua Water Technologies Private Limited ([ICRA]BB(Stable)/[ICRA]A4) manufactures ultra-filtration modules and fractional electro de-ionisation stacks that are used in water and waste water treatment solutions. Its operations began in March 2011
- Aquatech HK Water Treatment Limited was incorporated in Hong Kong in 2008 for the Chinese market
- Aquatech Water Solutions Private Limited (rated [ICRA]BBB(Stable)) is a special purpose vehicle launched by Aquios Development Pte Limited (part of the Aquatech Group) in 2013, to build and operate a water treatment plant for Hindustan National Power Corporation Limited at Palavalasa in Vishakhapatnam, Andhra Pradesh

Key financial indicators (audited)

	Standalone (Rs. crore)		Consolidated (USD Million)	
	CY2018	CY2019	CY2018	CY2019
Operating Income (Rs. crore)	137.8	171.0	33.5	36.2
PAT (Rs. crore)	4.3	8.5	-4.5	-0.6
OPBDIT/OI (%)	8.1%	7.0%	-14.8%	-0.8%
PAT/OI (%)	3.1%	5.0%	-13.3%	-1.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.5	2.5	2.5
Total Debt/OPBDIT (times)	2.7	2.5	-1.1	-17.8
Interest Coverage (times)	1.6	1.9	-7.8	-0.5

Status of non-cooperation with previous CRA:

CRA	Status of Non-cooperation	Date of Press Release
CRISIL Limited	Issuer not cooperating, based on best-available information; Ratings Migrated to 'CRISIL B+/Stable/CRISIL A4 Issuer not cooperating	November 06, 2020

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the past three years				
		Type	Amount Rated	Amount Outstanding	Rating	Rating	FY2020	FY2019	FY2018	
					07-Jan-2021	26-May-2020	05-Aug-2019	-	14-Mar-2018	20-Feb-2018
1	Unallocated	Long term/ Short-term	99.50	NA	[ICRA]BB+(Positive) / [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable) / [ICRA]A4+	-	[ICRA]BBB(S) (Stable)/ [ICRA]A3+(S)	[ICRA]BBB(S) (Stable)/ [ICRA]A3+(S)
2	Term Loan	Long-term	2.00	2.00	[ICRA]BB+(Positive)	-	-	-	-	-
3	Bank Guarantee	Long-term/ Short-term non-fund based	110.00	NA	[ICRA]BB+(Positive) / [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable) / [ICRA]A4+	-	[ICRA]BBB(S) (Stable)/ [ICRA]A3+(S)	-
4	Derivatives	Short-term fund/ non-fund based	0.00	NA	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A3+(S)	-
5	PCFC	Short-term fund based	30.00	NA	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-	[ICRA]A3+(S)	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	June 2020	8.0%	June 2021	2.00	[ICRA]BB+(Positive)
NA	Long-term/Short-term unallocated	NA	NA	NA	99.50	[ICRA]BB+(Positive)/ [ICRA]A4+
NA	Bank Guarantee	NA	NA	NA	110.00	[ICRA]BB+(Positive)/ [ICRA]A4+
NA	Derivatives	NA	NA	NA	0.00	[ICRA]A4+
NA	PCFC	NA	NA	NA	30.00	[ICRA]A4+

Source: ASAPL

Annexure-2: List of entities considered for consolidated analysis-

Company Name	Ownership	Consolidation Approach
Qua Water Technologies Private Limited	100%	Full consolidation
Wex Technologies Private Limited	100%	Full consolidation
Aquatech Eastern FZE	100%	Full consolidation
Aquatech HK Water Treatment Limited	100%	Full consolidation

Source: Company

Corrigendum:

Document dated January 07, 2021 has been corrected with revisions in figures for CY2019 in Key Financial Indicators given on Page 4. The document has also been corrected to revise the “rating history for past three years” table on page 5 wherein financial years have been correctly mentioned with the correct press release dates for FY2020, FY2019 and FY2018.

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