

May 21, 2021

## Aquatech Systems Asia Private Limited: Ratings upgraded; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	2.00	5.18	[ICRA]BBB-, upgraded from [ICRA]BB+; Outlook revised to Stable from Positive
Short-term fund based	30.00	30.00	[ICRA]A3, upgraded from [ICRA] A4+
Long-term/Short-term Non fund based	110.00	110.00	[ICRA]BBB-/ [ICRA]A3, upgraded from [ICRA]BB+/ [ICRA]A4+; Outlook on long-term rating revised to Stable from Positive
Long-term/Short-term unallocated	99.50	96.32	[ICRA]BBB-/ [ICRA]A3, upgraded from [ICRA]BB+/ [ICRA]A4+; Outlook on long-term rating revised to Stable from Positive
<b>Total</b>	<b>241.50</b>	<b>241.50</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The revision in ratings of Aquatech Systems Asia Private Limited (ASAPL) factors in the company's increased scale of operations and improvement in liquidity position, which has strengthened its credit profile. The credit profile is further supported by restructuring of its loss-making subsidiaries, which were a drag on the overall profitability and a strong order book position of Rs. 1,379 crore as on December 31, 2020, lending revenue visibility in the medium term. However, timely execution of orders remains crucial to sustain revenue growth. ASAPL's liquidity position has improved following receipt of substantial payments from one of its large customers in January 2021, leading to reduction in working capital limit utilisation. The parent company, Aquatech International LLC (AIC), has supported ASAPL by providing a performance bank guarantee for a large project which substantially helped with the working capital situation and also in principle approved \$1 million equity infusion in CY2021, which if infused could further strengthen the liquidity situation.

The ratings continue 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 ratings also factor in the healthy track record of ASAPL in completing projects in a timely manner and within stipulated budgets, protecting profitability. The ratings are however, constrained by high working capital intensity of operations with sizeable funds blocked in sticky receivables. However, ASAPL has recovered most amounts from group companies and is in the process of recovering overdue amounts from others. The ratings also factor in modest debt coverage indicators. The company's revenue growth is seeing incremental diversification between industrial and infrastructure markets based on the mix of backlog involving Waste Water Recycle/ Zero Liquid Discharge and Desalination projects in spite of the risk due to capex cycle. The company is offsetting the capex risk with incremental growth in the annuity / outsourcing contracts. The profit margins remain vulnerable to changes in raw material prices given high share of fixed price nature of contracts.

## Key rating drivers and their description

### Credit strengths

**Strong order backlogs** - The company had won multiple projects in industrial, export and infrastructure segments CY2020, leading to its highest ever order backlog of Rs. 1,379 crore as on December 31, 2020. Further, the company has bid for new projects and is expecting finalisation of projects worth Rs. 322 crore across market segments in CY2021. Given the healthy order backlog, the company is likely to register healthy revenue growth in the medium term.

**Strong operational support from parent company, AIC** – ASAPL provides design services to AIC and its subsidiary in China. Further, AIC subcontracts projects won in West Asia or Asia Pacific to ASAPL. Recently, AIC has extended direct and indirect financial support in the form of insurance bonds, bank guarantees, equity infusion and extended credit period to ASAPL. ASAPL has professional management team with substantial experience, both local as well as overseas, in their areas of operation.

**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 power, petrochemicals and refining, oil and gas, infrastructure, mining and metal industries, in addition to infrastructure (GWIL) & municipal (HMDA) projects in India. ASAPL is one of the few companies offering both membrane-based and thermal water desalination technologies and solutions. The Group develops full-scale plants on an engineering, procurement, and construction (EPC) basis. The company has had a strong track record of operations with no history of liquidated damages paid or invocation of bank guarantees.

### Credit challenges

**High working capital intensity of operations** - The company's debtor days are stretched at 262 days at the consolidated level. At the standalone level, it had debtor days of 276 days as on December 31, 2020. The company has, however, recovered most of the amount outstanding in the month of January 2021, leading to low working capital utilisation from banks during the quarter ending March 31, 2021. The company manages instances of short-term mismatches through unsecured loans from Group companies, working capital borrowings and extended credit period from the parent company. Recoveries from sticky debtors and timely execution of orders along with timely receipts will remain crucial to maintain adequate liquidity position and remain a key monitorable.

**Modest debt coverage indicators** – ASAPL's foreign operations reported losses in CY2018 and CY2019 before turning profitable in CY2020. The losses in overseas subsidiaries were directly/indirectly funded by Indian operations, which pressurised the liquidity position of the Indian operations. Business restructuring of overseas operations along with improved performance of the Indian operations has helped the company turn profitable in CY2020, which led to overall improvement in debt protection metrics; but the sustenance of the same will be a key factor to assess the debt repayment capacity of the company. At a standalone level, interest cover stood at a modest 2.3 times during CY2020. Moreover, ASAPL's cost of funding remains at an elevated level, which is a drag on profitability and interest coverage indicators. Going forward, the company's ability to raise funds at competitive rates remain crucial to improve net profitability and overall coverage indicators.

**Presence in industrial segment and effluent water treatment driving most of its revenues expose ASAPL to vertical concentration risks; foray into municipal projects partially insulate revenues from client concentration risks** - ASAPL derives most of its revenues from industrial effluent water treatment in India exposing it to vertical concentration risks.. However, its strong technological expertise, and presence in design services and other segments, as well as other geographies like West Asia and China partially mitigate the risk. In India, the company has started working on Infrastructure & Municipal projects as a measure to reduce customer segment concentration risk. The company is executing projects with financially strong municipal corporations. It has also won 270 mld water desalination projects of Gujarat Water Infrastructure Limited in association with Shapoorji Pallonji Limited. ASAPL also has fast growing stable, recurring revenue service business including O & M, managed operations, chemicals, membranes and consumables.

**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. However, enhanced participation in Infrastructure & Municipal markets and increasing annuity revenue streams provides hedge against industrial capex cycles. 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 due to savings in material cost is recognised at the end of each project, elevating profits in that fiscal.

## Liquidity position: Adequate

The company's liquidity remains **adequate** as it had received ~Rs. 135 crore from one of its clients in January 2021, which has improved its liquidity profile. The fund inflow has helped in substantially reducing its dependency on fund-based working capital utilisation during Q1 CY2021, and overall utilisation is likely to remain modest over the next 2-3 quarters. Further, the continuing support from parent company will allay liquidity concerns for the company. As on March 31, 2021, the company had a total unencumbered cash balance of Rs. 67.08 crore. Despite some delays in project execution due to the Covid-19 pandemic in CY2021, the liquidity should remain sufficient to fund its incremental working capital requirement over the near-term.

## Rating sensitivities

**Positive factors** – The ratings will be upgraded with substantial improvement in profitability and debt coverage indicators, specifically, interest coverage of over 3.0 times on a sustained basis.

**Negative factors** – Negative pressure on the ratings could arise on cancellation of major projects leading to steep revenue degrowth or deterioration in liquidity profile due to stretched working capital cycle. Decline in interest cover of below 2.0 times on a sustained basis could also be a negative trigger.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

## About the company

ASAPL offers water and wastewater management solutions, such as pre-treatment, ion exchange, membrane & thermal solutions and desalination. Based in Pune (Maharashtra), the company is a wholly-owned subsidiary of Aquatech International Corporation, Pennsylvania, USA. ASAPL executes plants for wastewater industrial re-use, desalination, and zero liquid discharge, and specialises in design-building (project-specific) and outsourcing solutions for water and wastewater management. ASAPL derives most of its revenues from industrial wastewater treatment & desalination in industrial, infrastructure & municipal segments in India and 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, it 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. The company substantially serves as a marketing arm for the Group.
- Wex Technologies Private Limited was incorporated in 2001 in Pune and is in the business of manufacturing speciality chemicals for water treatment and a key enabler of annuity revenues and brown field opportunities for ASAPL through their site level relationships and adds significant strength to ASAPL business model.
- Incorporated in 2010 in Pune, Qua Water Technologies Private Limited manufactures a wide range of IP based membrane products and fractional electro-de-ionisation stacks that are used in water and waste water treatment solutions. Operations began in March 2011. Qua is also a key enabler of technology projects and annuity revenues to ASAPL & AIC.
- Aquatech HK Water Treatment Limited was incorporated in Hong Kong in 2008 to cater to China.
- Aquatech Water Solutions Private Limited is a special purpose vehicle started 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 (HNPCL) in Palavalasa, Visakhapatnam.

## Key financial indicators

ASAPL	Standalone (Rs. Crore)		Consolidated (US\$ Million)	
	CY2019 (Audited)	CY2020 (Provisional)	CY2019 (Audited)	CY2020 (Audited)
Operating Income (Rs. crore)	171.0	284.2	36.2	49.2
PAT (Rs. crore)	8.5	9.6	-0.58	1.84
OPBDIT/OI (%)	7.0%	6.0%	-0.8%	9.0%
PAT/OI (%)	5.0%	3.4%	-1.6%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	89.8	100.6	2.5	3.2
Total Debt/OPBDIT (times)	2.5	2.0	-17.8	1.2
Interest Coverage (times)	1.9	2.3	-0.5	7.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research

## Status of non-cooperation with previous CRA: Not applicable

CRA	Status of non-cooperation	Date of Press Release
<b>CRISIL Limited</b>	Issuer not cooperating, based on best-available information; Ratings continue to be 'CRISIL B+/Stable/CRISIL A4 ISSUER NOT COOPERATING'; Ratings withdrawn	January 15, 2021

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating on	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					May 21, 2021	Jan 07, 2021	May 26, 2020	Aug 05, 2019	-
1	Term Loans	Long-term	5.18	Nil	[ICRA]BBB-(Stable)	[ICRA]BB+(Positive)	-	-	-
2	PCFC	Short-term	30.00	--	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-
3	Non-Fund based	Long-term/Short-term	110.00	--	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BB+(Positive)/[ICRA]A4+	[ICRA]BB+(Stable)/[ICRA]A4+	[ICRA]BB+(Stable)/[ICRA]A4+	-
4	Unallocated Amount	Long-term/Short-term	96.32	--	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BB+(Positive)/[ICRA]A4+	[ICRA]BB+(Stable)/[ICRA]A4+	[ICRA]BB+(Stable)/[ICRA]A4+	-

Source: Company

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
PCFC	Simple
Non-Fund based	Simple
Unallocated Amount	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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 Loans	December 2020	8% p.a.	48 months from the date of disbursement	5.18	[ICRA]BBB-(Stable)
NA	PCFC	-	-	-	30.00	[ICRA]A3
NA	Non-Fund based	-	-	-	110.00	[ICRA]BBB-(Stable)/ [ICRA]A3
NA	Unallocated Amount	-	-	-	96.32	[ICRA]BBB-(Stable)/ [ICRA]A3

**Source:** Company

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

Company Name	ASAPL 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

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