

August 05, 2019 ^{Revised}

Aquatech Systems Asia Private Limited: Rating downgraded to [ICRA]BB+(Stable)/[ICRA]A4+ from [ICRA]BBB(S)(Stable)/[ICRA]A3+(S)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund based	30.00	30.00	[ICRA]A4+; revised from [ICRA]A3+(S)
Short-term fund/non-fund based	6.50	6.50	[ICRA]A4+; revised from [ICRA]A3+(S))
Long-term/Short-term Non fund based	175.00	175.00	[ICRA]BB+(Stable)/[ICRA]A4+; revised from [ICRA]BBB(S)(Stable)/[ICRA]A3+(S)
Long-term/Short-term unallocated	30.00	30.00	[ICRA]BB+(Stable)/[ICRA]A4+; revised from [ICRA]BBB(S)(Stable)/[ICRA]A3+(S)
Total	241.50	241.50	

*Instrument details are provided in Annexure-1

Note: Earlier, the ratings also drew comfort from the Letter of Comfort from Aquatech International Inc (AIC), the parent entity. The rating symbol was thus accompanied by the (S) suffix. In absence of requisite information pertaining to AIC, the current rating is only based on Aquatech Systems Asia Private Limited's (ASAPL) operational and financial performance along with that of its subsidiaries.

Rationale

The rating revision reflects significant deterioration in Aquatech Systems Asia Private Limited's (ASAPL's) credit profile amid operating losses due to cost escalation in its West Asian projects, as well as for stretched receivable from its customers. As on March 2019, about 30% of the company's receivables were outstanding for over a year and the quantum increased by 5% in CY2018 over CY2017, despite decline in turnover during CY2018. Going forward, speedy recovery of receivables is crucial to ease liquidity pressure and remains a key rating sensitivity.

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.

Outlook: Stable

ICRA believes ASAPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to Positive if there is substantial growth in revenue and profitability, and better working capital management leading to improved liquidity and better financial profile. The outlook may be revised to Negative if revenues are lower than expected and there is a deterioration in the debtor position, straining liquidity.

Key rating drivers

Credit strengths

Strong trade and financial support from parent company, Aquatech International LLC (AIC)

ASAPL provides design services to AIC and its subsidiaries in China and West Asia. The company earns average revenues of ~\$70,000 per month from AIC. Further, AIC subcontracts projects won in West Asia or the Asia Pacific to ASAPL. Currently, ASAPL derives 10% of its revenues from AIC. AIC extends 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 way of extended credit period 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.

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 refining, oil and gas, infrastructure, mining and metal industries. It does not have any municipal projects in India. ASAPL is one of the few companies in the world offering membrane-based as well as thermal water desalination technologies and solutions. The Group develops full-scale plants on engineering, procurement and construction (EPC) basis. The company has a strong track record of operations, with no payment history of liquidation damages or invocation of bank guarantees.

Credit challenges

Steep revenue degrowth in CY2018 due to deferment of orders; performance to recover in CY2019

The company's revenues declined by 27% in CY2018 due to delay or shelving of projects by principal companies. In CY2019, the company has an assured order book of Rs. 280 crore, of which Rs. 100 crore is expected to be booked in CY2019. ASAPL has bid for projects worth over Rs. 350 crore, which if converted could ensure future revenue growth.

Weak operational performance at the consolidated level due to losses in overseas subsidiaries

Sharp decline in revenue as well as one-time exceptional losses in its overseas business resulted in a sharp decline in profitability during CY2018, adversely impacting coverage indicators. The loss was partially funded by equity infusions from the parent company, AIC.

Stretched debtors leading to stretched liquidity position, prompting high working capital utilisation

The company's debtor days are stretched at 143 days, at the consolidated level. At the standalone level, it has debtor days of 237 days. ASAPL has been almost fully utilising its sanctioned fund-based limits and has stretched payments to its Group entities.

Presence in industrial segment, especially in effluent water treatment, exposing company to vertical concentration risks; foray into municipal projects partially insulate revenues from customer segment concentration risks

ASAPL derives most of its revenues from industrial effluent water treatment projects in India. It derives minimal revenues from other segments like desalination or sewage treatment, exposing it to vertical concentration risks. However, strong technological expertise, presence in design services and presence in other segments in other geographies partially mitigate the risk. Further, in India, the company started bidding for municipal projects from CY2018, 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, while 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 its 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

ASAPL has been almost fully utilising its sanctioned fund-based limits and has stretched payments to its Group entities. Timely financial support from its parent company remains crucial to allay concerns over liquidity.

Analytical approach

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

About the company:

Aquatech Systems Asia Private Limited (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, based out of Pennsylvania, USA. ASAPL focuses on executing plants for waste-water industrial re-use, desalination and zero liquid discharge, by specialising in turnkey (project-specific) solutions for water and waste-water management. In India, most of its revenues are driven by industrial waste water treatment projects. While the company caters to the industrial segment in India, it works with the government sector in West Asia. While AIC handles the North American and European markets, the West Asian and the Asia Pacific markets are managed jointly with ASAPL and its subsidiaries.

Aquatech International LLC

Established in 1981, the Pennsylvania-based Aquatech International Inc. (AIC) is a major player in water purification technology for industrial and infrastructure markets, specialising in desalination, water recycle and reuse, and zero liquid discharge (ZLD). The company enjoys significant presence in North America, Europe, West Asia and Asia Pacific, and is expanding 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, who services the food, energy, healthcare, industrial and hospitality markets. The strategic partnership between Ecolab and AIC will benefit both with integrated technological and operational capabilities. While Ecolab stands to benefit from AIC’s technological pedigree, AIC stands to benefit from Ecolab’s large customer base.

Subsidiaries:

- Aquatech Eastern FZE was established in December 2005 for 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 manufactures ultra-filtration modules and fractional electro-de-ionisation stacks that are used in water and waste water treatment solutions. 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 ('AWSPL'/the company, rated [ICRA]BBB (SO) (Stable)) is a special purpose vehicle (SPV) 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 (HNPC) at Palavalasa in Vishakhapatnam, Andhra Pradesh

In CY2018, on a standalone basis, the company reported a net profit of Rs. 4.3 crore on an operating income of Rs. 137.8 crore, as compared to a net profit of Rs. 1.3 crore on an operating income of Rs. 189.2 crore in the previous year.

In CY2018, on a consolidated basis, the company reported a net loss of \$4.5 million on an operating income of \$33 million, over a net profit of \$0.6 million on an operating income of \$51.4 million in the previous year.

Key financial indicators (audited)

Unit	Standalone CY2017 (in Rs. crore)	CY2018	Consolidated CY2017 (in USD Mio)	CY2018
Operating Income	189.2	137.8	51.4	33.5
PAT	1.3	4.3	0.6	-4.5
OPBDIT/OI (%)	5.3%	8.1%	2.3%	-14.8%
RoCE (%)	9.9%	13.7%	4.3%	-17.3%
Total Debt/TNW (times)	0.4	0.4	0.3	0.4
Total Debt/OPBDIT (times)	3.1	2.7	5.1	-1.1
Interest coverage (times)	1.1	1.6	4.8	-7.8

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 BB+/Stable/CRISIL A4+ Issuer not cooperating	May 22, 2018

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
				August 2019	Mar 2018	Feb 2018	-	-	
1	Unallocated	Long term/ Short-term	30.00	NA	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BBB(S) (Stable)/ [ICRA]A3+(S)	[ICRA]BBB (S) (Stable)/ [ICRA]A3+ (S)	NA	NA
2	Bank Guarantee	Long-term/ Short-term non-fund based	175.00	NA	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BBB(S) (Stable)/ [ICRA]A3+(S)	NA	NA	NA
3	Derivatives	Short-term fund/nonfund based	6.50	NA	[ICRA]A4+	[ICRA]A3+(S)	NA	NA	NA
4	PCFC	Short-term fund based	30.00	NA	[ICRA]A4+	[ICRA]A3+(S)	NA	NA	NA

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 www.icra.in

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	Long-term/ Short-term unallocated	NA	NA	NA	30.00	[ICRA]BB+(Stable)/[ICRA]A4+
NA	Bank Guarantee	NA	NA	NA	175.00	[ICRA]BB+(Stable)/[ICRA]A4+
NA	Derivatives	NA	NA	NA	6.50	[ICRA]A4+
NA	PCFC	NA	NA	NA	30.00	[ICRA]A4+

Source: Company

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

Corrigendum

Previously published rating rationale dated August 05, 2019 has been corrected with revisions as detailed below:

Revision on Page 1 – the note under rating summary table has been added

Revision on Page 3- The approach to ratings on factoring in parent support has marked Not applicable

Revision on Page 4- Format of reporting of status of non-cooperation with other CRA has been changed from text to table

Revision on Page 5 – Rating assigned during Feb 2018 is incorporated in table

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