May 26, 2020

Aquatech Systems Asia Private Limited: Update

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+; outstanding
Short-term fund/non-fund based	6.50	6.50	[ICRA]A4+; outstanding
Long-term/Short-term Non fund based	175.00	175.00	[ICRA]BB+(Stable)/[ICRA]A4+; outstanding
Long-term/Short-term unallocated	30.00	30.00	[ICRA]BB+(Stable)/[ICRA]A4+; outstanding
Total	**241.50**	**241.50**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has noted the recent developments in Aquatech Systems Asia Private Limited (ASAPL/"the company"), due to the COVID-19 pandemic and continues to draw comfort from the healthy track record of ASAPL in completing projects in a timely manner and within stipulated budgets, thereby protecting profitability. While the company's engineering, procurement and construction (EPC) projects were not operational, it has been able to honour its operation and maintenance (O&M) contracts. The company's liquidity profile is supported by collections from customers, flexible credit terms from suppliers and external debt funding. According to the management, ASAPL has a healthy order pipeline of over Rs.1170 crore to sustain revenues in CY2020 and afterwards. In CY2019, at the standalone level, the company's revenues registered a stellar growth of 26%, driven by order wins in both industrial and municipal segments. However, working capital utilisation remained high, with ASAPL utilising its limits almost fully. Going forward, timely receipts from customers along with the company's ability to arrange external funding would remain crucial to maintain liquidity and support operations.

Key rating drivers and their description

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 an average revenue of ~$70,000 per month from AIC. Further, AIC subcontracts projects won in West Asia or the Asia Pacific to ASAPL. In CY2019, ASAPL derived 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. ICRA expects need-based financial support from AIC to continue in CY2020 as well.

Established player with strong track record in 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. The company has recently forayed into the municipal segment in India. ASAPL is one of the few companies in the world to offer 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

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

A sharp revenue decline as well as one-time exceptional loss in its overseas business significantly eroded the profitability in CY2018, adversely impacting coverage indicators. The loss was partially funded by equity infusions from the parent company, AIC. In CY2019, healthy operational performance of the standalone entity reduced the losses at the consolidated level, though the overall performance is likely to remain muted.

Stretched liquidity position due to elongated debtors results in high working capital utilisation

At the standalone level, the company's debtor days stood at 218 days as on December 31, 2019. ASAPL has been almost fully utilising its sanctioned fund-based limits and has stretched payments to its Group entities. Liquidity position of the company remain stretched.

Presence in industrial segment, especially in effluent water treatment, exposes company to vertical concentration risks; foray into municipal projects partially insulates 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 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, which have healthy payment history.

Revenues susceptible to capex cycle; fixed-price contracts make profit margins vulnerable to changes in material prices

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: Stretched

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 or external funding remains crucial to allay concerns over liquidity.

Rating sensitivities

Positive triggers – Substantial improvement in scale of operations, leading to improvement in profitability indicators; and improvement in liquidity profile on a sustained basis.

Negative triggers – Steep deterioration in scale, leading to operational losses; and further deterioration in liquidity profile

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, based in Pennsylvania, the US. 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 the Middle East. While AIC caters to the US and European markets, the Middle East and the Asia-Pacific markets are managed jointly by ASAPL and its subsidiaries.

Aquatech International LLC

Established in 1981 and based in Pennsylvania, the US, Aquatech International Inc (AIC) is one of the major players in the water purification technology for industrial and infrastructure markets, with focus on desalination, water recycle and reuse, and zero liquid discharge (ZLD). The company has a significant presence in North America, Europe, the Middle East, India and China and 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 and services to the food, energy, healthcare, industrial and hospitality markets. The strategic partnership between Ecolab and AIC will enable them to provide the customers with 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 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 (HNPCL) at Palavalasa in Vishakhapatnam, Andhra Pradesh

Key financial indicators (provisional)

Standalone	CY2018 (Audited)	CY2019 (Provisional)
Operating Income (Rs. crore)	137.8	173.1
PAT (Rs. crore)	4.3	8.0
OPBDIT/OI (%)	8%	8%
RoCE (%)	14%	15%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	1.5
Total Debt/OPBDIT (times)	2.7	2.1
Interest Coverage (times)	1.6	2.2
DSCR	1.3	2.3

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 past three years

	Instrument	Current Rating (FY2021)				Rating History for the past three years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					26-May 2020	05-Aug 2019	20-Feb 2018	NA
1	Unallocated	Long term/ Short-term	30.00	NA	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BBB(S)(Stable)/ [ICRA]A3+(S)	NA
2	Bank Guarantee	Long-term/ Short-term non-fund based	175.00	NA	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BB+(Stable)/ [ICRA]A4+	[ICRA]BBB(S)(Stable)/ [ICRA]A3+(S)	NA
3	Derivatives	Short-term fund/nonfund based	6.50	NA	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+(S)	NA
4	PCFC	Short-term fund based	30.00	NA	[ICRA]A4+	[ICRA]A4+	[ICRA]A3+(S)	NA

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 www.icra.in

Annexure-1: Instrument details

ISIN	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

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About ICRA Limited:

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