

August 04, 2022

Aquatech Systems Asia Private Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	5.18	5.18	[ICRA]BBB- reaffirmed; outlook revised to Positive from Stable
Short-term fund based	30.00	30.00	[ICRA]A3; reaffirmed
Long-term/Short-term Non fund based	110.00	110.00	[ICRA]BBB-/ [ICRA]A3 reaffirmed; outlook revised to Positive from Stable
Long-term/Short-term unallocated	96.32	96.32	[ICRA]BBB-/ [ICRA]A3 reaffirmed; outlook revised to Positive from Stable
Total	241.50	241.50	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook on Aquatech Systems Asia Private Limited (ASAPL) ratings reflects ICRA's expectation that the company is likely to register steady revenue growth and higher internal accruals over the near to medium term supported by timely execution of orders, while maintaining comfortable leverage levels and debt coverage metrics. ASAPL has secured sizeable orders in the current year, translating into a healthy order book of ~Rs. 1050 crore as of June 30, 2022, which provides revenue visibility over the medium term. Moreover, increased order inflow has also led to reduction in the order book concentration on select projects, which was the case in the previous year. Additionally, the rating factors in the established position of the Aquatech Group¹ in the water management business over the last four decades, along with the financial and operational synergies that ASAPL derives from being a part of the Group.

The ratings are, however, constrained by ASAPL's moderate scale of operations relative to the overall size of the water industry as well as its peers, resulting in limited economies of scale. This, coupled with limited pricing flexibility owing to competitive pressures and the fixed-price nature of most of the contracts, has continued to result in modest profit margins for the company. ASAPL's operating margin declined to 5.6% in CY2021 (9.6% in CY2020), owing to a considerable increase in raw material prices and logistics costs during pandemic era, which the company was not able to fully pass on to its customers. However, given the improved revenue visibility, ICRA expects the company's scale of operations to improve in the medium term, also supporting its profitability metrics to an extent. The ratings also factor in the high working capital intensity of operations due to high receivable levels and the vulnerability of the company's revenue and profitability to any delays in execution of major pending orders. However, ICRA draws comfort from ASAPL's established execution track record both in the domestic and international markets.

Key rating drivers and their description

Credit strengths

Established player with strong track record in industrial waste-water treatment business – The company has been present in the water treatment industry since 1997. It mainly caters to the power, petrochemicals and refining, oil and gas, infrastructure, pharma, food and beverages, mining and metal industries. ASAPL is one of the few companies offering both

¹ Aquatech group refers to Aquatech international LLC and its subsidiary. The detail of AIC is given in company section.

membrane-based and thermal water desalination technologies and solutions. The Group develops full-scale plants on an engineering, procurement, and construction (EPC) basis and benefits from its established track record and technological capabilities in the industry.

Strong operational support from parent company Aquatech International LLC – The company benefits from the established position of the Aquatech Group in the water management business over the last four decades, along with the financial and operational synergies that ASAPL derives from being a part of the Group. In the recent past, AIC has extended direct and indirect financial support in the form of insurance bonds, bank guarantees, equity infusion and extended credit period to ASAPL.

Healthy order book provides revenue visibility over medium term – After a relatively muted order inflow in CY2021, ASAPL has secured multiple projects in H1 CY2022, which lead to a healthy order backlog of Rs. 1,050 crore as of June 30, 2022, thus providing revenue visibility over the medium term. The company is also in the advanced stages of securing sizeable orders of ~Rs 500 crore, which will further add to the order backlog. However, timely execution of the pending order book will remain a key monitorable.

Adequate financial risk profile- The company's financial risk profile remains adequate, reflected in the comfortable capital structure (TOL/TNW of 0.3 times) and debt coverage ratios (interest cover of 6.2 times and total debt/ OPBITDA of 1.3 times) in CY2021. ASAPL's coverage ratios have improved considerably post CY2020 after improvement in performance of both the Indian and overseas operations. Till CY2020, the overseas operations reported losses which impacted the company's financial profile. However, business restructuring of the overseas operations along with improved performance of the Indian operations have helped the company improve its financial risk profile.

Credit challenges

Moderate scale of operations – ASAPL's scale of operations remains moderate (Rs. 383 crore in CY2021) compared with other players in the water treatment business, with major focus only on industrial projects. However, given the improved order inflow and revenue visibility in the current year, ICRA expects the company's scale of operations to improve in the medium term.

Profit margins remain susceptible to volatility in raw material prices, given fixed-price nature of most contracts – ASAPL mostly enters fixed-price contracts with its customers, and hence its profitability remains susceptible to the volatility in raw material prices. This was also evident from the decline in its operating margin to 5.6% in CY2021 (9.6% in CY2020), owing to considerable increases in raw material prices and logistics costs during pandemic period, which the company was not able to fully pass on to its customers. Moreover, one major order (from Gujarat Water Infrastructure Limited)² has remained stuck over the past few years due to certain ongoing issues. However, as per the company's management, the issues have been resolved and execution is expected to commence in the very near term. Given the nature of the project, timely resolution of the disputes and financial closure as per the terms of order, will be key monitorables as this order is expected to contribute materially to the company's revenue over the next few years.

High working capital intensity of operations – In line with the growth in business, ASAPL's working capital intensity has remained high, primarily driven by high debtor levels, small part of which are also from Group companies. Moreover, given the increased order inflow in the current year thus far, ICRA expects the company's working capital requirements to remain elevated over the near to medium term.

Liquidity position: Adequate

The company's liquidity remains adequate, supported by internal accrual generation, unencumbered cash/bank balance of ~Rs. 50 crore as on March 31, 2022 and a cushion (Rs. 30 crore cash credit line as on March 31, 2022) in the form of undrawn

² This project is for four 270-MLD water desalination plant in Gujarat, in which ASAPL has participated with the Shapoorji Pallonji Group. The project is awarded on a HAM (Hybrid Annuity Model) concession model.

working capital limits. ASAPL does not have any major capex plans or debt repayment liabilities over the medium term, which also support its liquidity profile. With the execution of the increased order book, the funding requirements are also likely to increase for the same. However, the same is expected to be funded through available liquidity cushion and incremental limits from the bank.

Rating sensitivities

Positive factors – ICRA could upgrade ASAPL's ratings if there is a healthy internal accruals generation, supported by timely execution of orders, along with improvement in the working capital intensity and debt coverage indicators.

Negative factors – The outlook on the long-term rating may be revised to stable if there is considerable pressure on ASAPL's revenue and profitability owing to delayed execution of the pending order book. Moreover, deterioration in the working capital cycle impacting the company's liquidity position could also trigger a rating downgrade. A specific credit metric for a downgrade is if interest coverage is below 2.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASAPL. As on March 31, 2022, the company had 4 subsidiaries, which are listed in Annexure-2.

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 (AIC), 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 the 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

Aquatech International Inc., Pennsylvania, USA, established in 1981, is one of the major players in water purification technology for the 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.

Key financial indicators (audited)

ASAPL	Standalone (Rs. Crore)		Consolidated (USD Million)	
	CY2020	CY2021	CY2020	CY2021
Operating income	283.5	381.8	49.2	68.2
PAT	7.0	11.1	1.8	0.9
OPBDIT/OI	5.8%	3.7%	9.6%	5.6%
PAT/OI	2.5%	2.9%	3.7%	1.3%
Total outside liabilities/Tangible net worth (times)	2.7	3.2	3.2	4.0
Total debt/OPBDIT (times)	2.0	2.2	1.1	1.3
Interest coverage (times)	2.2	2.6	5.5	6.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore,

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
						Aug 4, 2022	May 21, 2021	Jan 07, 2021	May 26, 2020
1	Term loans	Long-term	5.18	3.80	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Positive)	-	-
2	PCFC	Short-term	30.00	--	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3	Non-Fund based	Long-term/Short-term	110.00	--	[ICRA]BBB- (Positive)/ [ICRA]A3	[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- (Positive)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (Positive)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB+ (Stable)/ [ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short-term fund based – Packing Credit/EBR	Very Simple
Long-term/Short-term Non fund based	Very Simple
Long-term/Short-term unallocated	NA

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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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-(Positive)
NA	PCFC	-	-	-	30.00	[ICRA]A3
NA	Non-Fund based	-	-	-	110.00	[ICRA]BBB-(Positive)/ [ICRA]A3
NA	Unallocated Amount	-	-	-	96.32	[ICRA]BBB-(Positive)/ [ICRA]A3

Source: Company

Annexure II: 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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About ICRA Limited:

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