

July 14, 2023

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

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	3.77	[ICRA]BBB- (Stable); reaffirmed, outlook revised to Stable from Positive
Short-term Fund-based	30.00	-	-
Long-term/ Short-term – Fund-based	-	30.05	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed, outlook revised to Stable from Positive
Long-term/ Short-term Non-fund Based	110.00	129.85	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed, outlook revised to Stable from Positive
Long-term/ Short-term Unallocated	96.32	77.83	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed, outlook revised to Stable from Positive
Total	241.50	241.50	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook factors in Aquatech Systems Asia Private Limited's (ASAPL) lower-than-anticipated revenue growth and accrual generation for CY2022 and 5M CY2023, primarily due to delay in executing a couple of large orders (Gujarat Water Infrastructure Limited and an order from Saudi Arabia, totalling ~Rs. 1,150 crore). ICRA notes that these orders are in the final stages of closure and their timely execution will be key in driving the company's revenue growth over the medium term. The rating reaffirmation 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 as part of the Group. ICRA notes the company's strong order book of ~Rs. 927 crore as on December 31, 2022, with strong orders in the pipeline, providing revenue visibility for the company in the medium term. ASAPL is in advanced stages of availing enhancement in its non-fund-based limit, given the healthy increase in its order book position. This will enable it to provide bank guarantees to its customers as per contractual terms and commence timely execution of new orders; thus, timely sanction of the same will remain a key monitorable. The company's financial risk profile remains adequate, reflected in the comfortable capital structure (gearing of 0.3 times) and debt coverage ratios (interest cover of 4.1 times and total debt/ OPBITDA of 2.9 times) in CY2022.

The ratings remain 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. Coupled with limited pricing flexibility owing to competitive pressures and the fixed-price nature of most of the contracts, this has continued to result in modest profit margins for the company. ASAPL's consolidated OPM declined to 2.4% in CY2022 (5.6% in CY2021) owing to write-off of trade receivable and rising raw material prices, which it was unable to pass on to end-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. The ratings also factor in the high working capital intensity of operations due to high receivable levels and the vulnerability of ASAPL's revenue

¹ Aquatech Group refers to Aquatech international LLC (AIC) and its subsidiary. The details of AIC are shared in the company section.

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 wastewater 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 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 field.

Strong operational support from parent company AIC – 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 as part of the Group. 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.

Healthy order book provides revenue visibility over medium term – The company has a healthy order backlog of ~Rs. 927 crore (as on December 31, 2022) and strong order pipeline, which provides revenue visibility in the near to medium term. ASAPL is also in the advanced stages of securing sizeable orders of ~Rs. 800 crore, which will further add to the order backlog.

Adequate financial risk profile – The company's financial risk profile remains adequate, reflected in the comfortable capital structure (gearing of 0.3 time) and debt coverage ratios (interest cover of 4.1 times and total debt/ OPBITDA of 2.9 times) in CY2022. The company's consolidated OPBITDA margins and debt coverage metrics were impacted because of one-time write-off of Rs. 14-crore receivables. ICRA expects the capital structure and coverage metrics to improve in the near to medium term supported by improved internal accruals and infusion of \$2.0 million equity by ASAPL's parent (of which \$1.0 million has already been infused in Q2 CY2023 and the rest is expected by the end of the year).

Credit challenges

Moderate scale of operations – ASAPL's scale of operations remains moderate (Rs. 346 crore in CY2022) compared to 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 mainly 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 in CY2022 due to firming up of raw material prices, which the company was unable to fully pass on to its customers, and the write off of old receivables (~Rs. 14 crore in CY2022). Adjusting for the same, the operating margin at a consolidated level stood at ~5.5 % in CY2022. A major order (from Gujarat Water Infrastructure Limited), which had remained stagnant over the past few years, is expected to be executed from H2 CY2023 onwards. Given the fixed-price nature of this order, its impact on ASAPL's profitability remains to be seen as this order is expected to contribute materially to its 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, a 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 (at standalone level) of ~Rs. 11.7 crore (as on March 31, 2023) and a cushion of Rs. 8.6 crore cash credit line (as on March 31, 2023) in the form of undrawn working capital limits. ASAPL does not have any major capex plans or debt repayment liabilities over the medium term, which also supports 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 – Negative pressure on the ratings could arise if there is considerable pressure on ASAPL's revenue and profitability owing to delayed execution or cancellation of major projects or deterioration in liquidity profile due to stretched working capital cycle. A specific credit metric for a downgrade includes the interest coverage falling 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, 2023, the company had four subsidiaries, which are listed in Annexure-II.

About the company

ASAPL offers water and wastewater management solutions, such as pre-treatment, ion exchange, membrane and 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 and desalination in the industrial, infrastructure and 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.

About the parent company

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 (NYSE), 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)	
	CY2021	CY2022	CY2021	CY2022
Operating income	382.6	347.5	68.2	58.3
PAT	11.1	11.5	0.9	2.1
OPBDIT/OI	3.9%	4.3%	5.6%	2.4%
PAT/OI	2.9%	3.3%	1.3%	3.6%
Total outside liabilities/Tangible net worth (times)	3.2	2.7	4.0	3.3
Total debt/OPBDIT (times)	2.0	1.8	1.3	2.9
Interest coverage (times)	2.8	2.9	6.2	4.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA calculations. Note: The company's standalone financial are as per IGAAP and Consolidated financial are as per US GAAP

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 20223 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Jul 14, 2023	Aug 4, 2022	May 21, 2021	Jan 07, 2021	May 26, 2020
1 Term loans	Long-term	3.77	3.77	[ICRA]BBB-(Stable)	[ICRA]BBB-(Positive)	[ICRA]BBB-(Stable)	[ICRA]BB+(Positive)	-
2 PCFC	Short-term	-	-	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4+
3 Fund Based	Long-term/Short-term	30.05	-	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-
4 Non-Fund based	Long-term/Short-term	129.85	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Positive)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BB+(Positive)/[ICRA]A4+	[ICRA]BB+(Stable)/[ICRA]A4+
5 Unallocated Amount	Long-term/Short-term	77.83	-	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BBB-(Positive)/[ICRA]A3	[ICRA]BBB-(Stable)/[ICRA]A3	[ICRA]BB+(Positive)/[ICRA]A4+	[ICRA]BB+(Stable)/[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fixed Deposits	Simple
Long-term/Short-term fund based	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 analyzing 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 I: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loans	FY2021	~8% p.a.	FY2025	3.77	[ICRA]BBB- (Stable)
NA	Fund based	NA	NA	NA	30.05	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	Non fund based	NA	NA	NA	129.85	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	Unallocated	NA	NA	NA	77.83	[ICRA]BBB- (Stable)/ [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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