ICRA

VA Tech Wabag Limited

Instrument	Amount	Rating Action
	In Rs Crore	February 2016
Long term: Fund based facilities	300.0 (enhanced from 120.0)	[ICRA]AA- (Stable); reaffirmed
Short term: Non-fund Based Facilities	2036.5 (enhanced from 1596.0)	[ICRA]A1+; reaffirmed
Short term: Proposed Non-fund Based	309.5 (reduced from 500.0)	[ICRA]A1+; reaffirmed
Short term: Commercial Paper	150.0	[ICRA]A1+; reaffirmed

ICRA has reaffirmed the rating of [ICRA]AA- (pronounced as ICRA double A minus) to the Rs 300.0[*] crore (enhanced from Rs 120.0 Crore) fund based bank limits of VA Tech Wabag Limited (Wabag/'the company'). The outlook on the rating is Stable. ICRA has also reaffirmed the short term rating at [ICRA]A1+ (pronounced as ICRA A one plus) rating to the Rs 2346.0 crore (enhanced from Rs 2096.0 Crore) non-fund based facilities and Rs 150.0 crore Commercial Paper programme of the company[†].

The reaffirmation of the ratings reflects the robust order book position of the company following healthy order booking in FY 2015 and April-December 2015, also aided by company's established position in the water infrastructure business with its strong technical capabilities arising out of execution track record, ownership of product and process patents as well as experienced promoters & management. The ratings also take into account of the favourable long term demand prospects for water/waste-water projects in the company's target markets. The ratings further consider the strong financial profile of the company characterised by a conservative capital structure, comfortable coverage indicators and large cash reserves.

The ratings, however, are constrained by the large receivables position and high working capital intensity in the business owing to lumpy order execution (substantial percentage of standalone revenues are booked in Q4) and weak profitability in a few European subsidiaries. The increased level of retention money held by clients, considering the number of completed projects in the recent past, and the delays in payments by certain clients like in municipal & power utility segment have also kept the receivable cycle elongated. The company's reliance on working capital debt has been minimal traditionally, indicating its ability to execute projects through customer advances and back-to-back credit period from suppliers. Nevertheless, owing to the overall economic slowdown, the company has funded some of the suppliers in the recent past to speed up project execution. This has had the effect of increasing the working capital intensity and the company has funded the increase partly through usage of cash available and partly through borrowings. With full drawdown of term debt for the Namibia BOOT project (for which the repayments have also commenced) the consolidated debt levels have increased, though the gearing level still remains comfortable.

The ratings also take into account the vulnerability of the profitability to competitive pressures, fluctuations in the prices of raw materials in case of 'fixed price' based contracts, incidence of liquidated damages, warranty payouts and adverse litigation/arbitration outcomes. The various provisions[‡] made towards bad debts, liquidated damages, warranties & contract losses have thus restricted the consolidated operating margin, although the RoCE has remained healthy due to asset light nature of operations, over the last five year period. The ratings further take into account the continuing losses in a few overseas subsidiaries, mainly Austria, which have constrained margins at the consolidated level. While the company has wound up a few loss making subsidiaries, ability to improve the profitability for the remaining subsidiaries remains important from credit perspective

[*] 100 lakh = 1 crore = 10 million
[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Publications
[‡] Provisions for bad debts, LDs and warranties made year on year based on the company's accounting policy

especially considering the losses reported in Q1 2016 in the Turkey subsidiary. ICRA also takes note of the increased contingent liabilities for the company due to the large performance guarantee requirement for the desalination project being executed through JV in Oman. The ability of Wabag to reduce the receivable collection cycle and improve the consolidated profitability would be the key rating sensitivities going forward.

Company Profile

Incorporated in 1996, Wabag is in the business of providing turnkey solutions for water and waste water treatment to municipal and industrial segments. The company undertakes turnkey contracts for design, engineering, procurement, construction, erection, commissioning and operation and maintenance of water and waste water treatment plants. The company has seen considerable changes in its ownership pattern since its inception as a water division of Blacke Durr Cooling Towers Ltd – a part of Deutsche Babcock AG, Germany (DBAG) in October 1996. Following the acquisition of DBAG by VA Tech AG, Austria in April 1999, VA Tech Wabag GmbH, Austria (Wabag Austria) was incorporated and its Indian operations became known as VA Tech Wabag Limited, (Wabag) being a 100% subsidiary of Wabag Austria. Later, Wabag, Austria was taken over by Siemens AG, Germany in July 2005 and as a result, Wabag Austria (excluding India operations) became a part of Siemens AG, Germany. In September, 2005, the company's management team and ICICI Ventures bought out the majority stake (82.9%) in Wabag's India operations. Subsequently in September 2007, Wabag India acquired its ex-parent, i.e., Wabag Austria from Siemens. With this acquisition Wabag Austria and its subsidiaries became subsidiaries of the company and Wabag on a consolidated basis has presence across North Africa, Middle East, Far East-China, and South East/Central/Eastern Europe.

During 2014-15, VA Tech Wabag Limited (standalone) reported a net profit of Rs. 90.4 crore on a turnover of Rs. 1,223.4 crore. During 2014-15, VA Tech Wabag Limited (consolidated) reported a net profit stood of Rs. 110.1 crore on a turnover of Rs. 2,435.2 crore. The consolidated entity has reported an operating income of Rs 1686.0 crore and net profit of Rs. 23.6 crore in 9M FY 2016 as against the operating income of Rs 1522.7 crore and PAT of Rs 39.5 crore in the corresponding year-ago period.

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