

Aquatech Systems Asia Private Limited

March 14, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term fund based	0.00	30.00	[ICRA]A3+(S) assigned
Short-term fund/non-fund based	0.00	6.50	[ICRA]A3+(S) assigned
Long-term/Short-term Non-fund based	0.00	175.00	[ICRA]BBB(S)(Stable)/[ICRA]A3+(S) assigned
Long-term/Short-term Unallocated	20.00	30.00	[ICRA]BBB(S)(Stable)/[ICRA]A3+(S) assigned
Total	20.00	241.50	

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB(S)¹ (pronounced ICRA triple B S) and short-term rating of [ICRA]A3+(S) (pronounced ICRA A three plus S) to the Rs.30.00 crore² long-term / short-term unallocated facilities and Rs.175.00 crore long-term/ short-term non-fund based facilities of Aquatech Systems Asia Private Limited ('ASAPL'/ the company). ICRA has also assigned a short-term rating of [ICRA]A3+(S) (pronounced ICRA A three plus S) to the Rs. 30.00 crore short-term fund based working capital limits and the Rs. 6.50 crore short-term fund/ non-fund based working capital limits of ASAPL. The outlook on the long-term rating is stable. '(S)' suffixed to a rating symbol denotes that the rating is supported by a Letter of Comfort extended by Aquatech International, LLC. An (S) rating is specific to the rated issue, its terms, and its structure. An (S) rating does not represent ICRA's opinion on the general credit quality of the issuers concerned.

Rationale

The assigned rating draws comfort from the letter of comfort extended by the parent company, Aquatech International LLC (AIC), promising timely financial support to ASAPL whenever required; and strong operational and financial support extended by the parent by way of equity infusions, technical assistance and corporate guarantees. The ratings also factor in the extensive experience of the promoters over two decades in the water management business and the group's diversified presence across geographies. The ratings take comfort from the healthy track record of ASAPL in completing projects in a timely manner, within stipulated budget thereby protecting profitability. The company's capital structure with low gearing and satisfactory coverage indicators lend support to the ratings.

However, the ratings are constrained by the company's stretched receivables leading to stretched liquidity position. Further, the company's closing order book position for CY2017 remained low when compared to previous years, constraining revenue visibility over the near to medium term; though there has been some improvement in order inflow during Q1CY2018. With 80% of its revenues from the industrial segment especially for effluent water treatment, the company is exposed to segment and vertical concentration risks. The company's inflows are dependent on the domestic capex cycle and capex budget of end user industries. The company is working on availing long-term loan to fund its

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

working capital cycle, which should ease pressure on liquidity in the medium term. Moreover, timely recovery of receivable from sticky debtors remain crucial to allay liquidity pressure in the near term.

Outlook: Stable

ICRA believes ASAPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to 'Positive' if 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 of debtor position, straining liquidity.

Key rating drivers

Credit strengths

Strong trade and financial support from parent company AIC

ASAPL provides design services to AIC and its subsidiaries and it derives ~10% of its revenues every year from its parent company i.e. AIC. Moreover, in the past, AIC has also extended financial support in the form of equity infusion and corporate guarantees. AIC has also provided a letter of comfort to ASAPL promising timely financial support, as and when required.

Established player with strong track record in the industrial waste-water treatment business

The company has presence in water treatment industry since 1986. It mainly caters to power, petrochemicals and refining, oil and gas, infrastructure and mining and metal industries in India. ASAPL is offering both membrane-based and thermal water desalination technologies and solutions and it develops full-scale plants under engineering, procurement, and construction (EPC) basis. The company has an established track record of operations with no history of liquidated damages paid or invocation of bank guarantees, as per the management.

Healthy capital structure with adequate coverage indicators

With a gearing of 0.4 times at the consolidated level in CY2016, the company has a comfortable capital structure. The coverage indicators are satisfactory with a DSCR of 1.9 times, and interest coverage of 3.7 times at the consolidated level in CY2016.

Credit challenges

Stretched debtors leading to stretched liquidity position, leading to high working capital utilization

The company's debtor days are stretched with over 25% of total debtors being due by over a year. Owing to stretched working capital cycle, liquidity condition remains strained with almost full utilization of sanctioned working capital facilities. The company gets support from group companies in time of short-term mismatches in liquidity and is looking at various refinancing options to reduce dependence on high cost working capital loans. Company's ability to prune its working capital cycle and recovery of funds from sticky debtors remain crucial to alleviate liquidity concerns.

Limited order pipeline for CY2018 constraining revenue visibility; however, the company has bid for sufficient orders which is expected to maintain stable revenues

The company's closing order book size as of December 2017 was Rs.86 crore, which is much lower compared to the closing orderbook of Rs.199 crore in the previous year. Currently the company has bid for orders worth more than Rs.700 crore of which a sizable number are in the final stages of negotiation. With current orders and with conversion of new orders, revenues are expected to be stable in CY2018.

Presence in industrial segment and with majority of revenues from effluent water treatment exposes company to customer segment and vertical concentration risks

ASAPL derives majority of its revenues from industrial effluent water treatment in India. It derives minimal revenues from other segments like desalination or sewage treatment, exposing it to vertical concentration risks. Further, in India, the company largely caters to the industrial segment and does not bid for municipal projects exposing it to segment concentration risk. However, strong technological expertise, presence in design services and presence in other segments in other geographies like middle-east and china partially mitigate the risk.

Revenues susceptible to capex cycle; 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. 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 due to savings

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

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, and specializes in providing turnkey (project-specific) solutions for water and waste-water management. In India, it derives majority of its revenues through industrial waste water treatment. While the company caters to the industrial segment in India, it caters to the government sector in the Middle East. While AIC caters to the USA and European markets, Middle East and the Asia-Pacific markets are managed jointly with ASAPL and its subsidiaries.

Aquatech International LLC

Established in 1981 and based out of Pennsylvania, USA, Aquatech International Inc (AIC) is one of the major players in water purification technology for industrial and infrastructure markets with a focus on desalination, water recycle and reuse, and zero liquid discharge (ZLD). The company has significant presence in North America, Europe, 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 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 minimize net water usage and maximize process performance and productivity. 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, to cater to the Middle-East market.
- Wex Technologies Private Limited was incorporated in 2001 in Pune and is in the business of manufacturing 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 Hongkong in 2008 to cater to China.
- Aquatech Water Solutions Private Limited ('AWSPL'/the company, rated [ICRA]BBB (SO) (Stable)) is a special purpose vehicle (SPV) started 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) in Palavalasa, Vishakapatnam.).

In CY2016 on a standalone basis, the company reported a net profit of Rs. 4.1 crore on an operating income of Rs. 196.8 crore, as compared to a net profit of Rs. 2.80 crore on an operating income of Rs. 119.50 crore in the previous year. At the consolidated level in CY2016, ASAPL reported a net profit of USD 2.0 million on an operating income of USD 55.8 million, as compared to a net profit of USD 0.9 million on an operating income of USD 37.8 million in the previous year.

Key financial indicators (audited)

	CY 2015	CY 2016
Operating Income (Rs. crore)	119.5	196.8
PAT (Rs. crore)	2.8	4.1
OPBDIT/ OI (%)	16.0%	7.8%
RoCE (%)	13.1%	17.0%
Total Debt/ TNW (times)	0.9	0.5
Total Debt/ OPBDIT (times)	2.3	2.3
Interest coverage (times)	2.1	1.6
NWC/ OI (%)	32.4%	25.0%

Source: ASAPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Date & Rating Feb 2018	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)		FY2017	FY2016	FY2015
1 Unallocated	Long term/ Short-term	30.00	NA	[ICRA]BBB(S)(Stable)/ [ICRA]A3+(S)	NA	NA	NA
2 Bank Guarantee	Long-term/ Short-term non-fund based	175.00	NA	[ICRA]BBB(S)(Stable)/ [ICRA]A3+(S)	NA	NA	NA
3 Derivatives	Short-term fund/non- fund based	6.50	NA	[ICRA]A3+(S)	NA	NA	NA
4 PCFC	Short-term fund based	30.00	NA	[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]BBB(S)(Stable)/ [ICRA]A3+(S)
NA	Bank Guarantee	NA	NA	NA	175.00	[ICRA]BBB(S)(Stable)/ [ICRA]A3+(S)
NA	Derivatives	NA	NA	NA	6.50	[ICRA]A3+(S)
NA	PCFC	NA	NA	NA	30.00	[ICRA]A3+(S)

Source: ASAPL

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