

## Qua Water Technologies Pvt. Ltd.

September 03, 2018

### Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based	3.00	[ICRA]BB(Stable) assigned
Short-term non-fund based	2.25	[ICRA]A4 assigned
Long term proposed	1.75	[ICRA]BB(Stable) assigned
<b>Total</b>	<b>7.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs.3.00 crore long-term fund based facilities and Rs.1.75 crore long-term proposed facilities of Qua Water Technologies Pvt. Ltd. (Qua/the company). The outlook on the long-term rating is Stable. ICRA has also assigned a short-term rating of [ICRA]A4 (pronounced ICRA A four) to the Rs.2.25 crore short-term non fund based facilities of Qua.

### Rationale

The assigned ratings draw comfort from the experienced management team of Qua; strong direct and indirect financial support lent by Qua's parent company, Aquatech Systems Asia Private Limited (ASAPL, rated [ICRA]BBB(S)(Stable)/[ICRA]A3+(S)); and strong operational support from the group by the way of sales support and flexible credit terms for raw material purchases. The ratings are however constrained by the company's limited track record of operations leading to small scale of operations with revenues of Rs.18.1 crore in FY2018 amidst a competitive environment with incumbents with substantial scale. With raw material costs constituting over 55% of total costs, Qua's profit margins are exposed to variations in international polyvinyl chloride (PVC) prices, in the absence of any hedging mechanism. Given working capital-intensive nature of operations, the company's ratings are also impacted by the company's weak liquidity profile characterized by almost 100% utilization of sanctioned working capital lines and high working capital intensity of ~24% in FY2018.

### Outlook: Stable

ICRA believes Qua would continue to benefit from the group's operational support and the parent company would continue to extend financial assistance as and when required. The rating outlook would be revised to "positive" if there is substantial improvement in scale and company's liquidity position or if ASAPL's ratings are revised upwards. The rating outlook would be revised to negative if there is decline in Qua's or ASAPL's profit margins and deterioration in capitalization and coverage indicators.

## Key rating drivers

### Credit strengths

**Experienced management with over two decades of experience in the water treatment industry-** The promoters have over two decades of experience in the water treatment industry, which has helped the group in building clientele and strong references across geographies.

**Strong operational and financial support from group companies-** The parent company ASAPL extends strong financial support in the form of unsecured loans and corporate guarantees. Moreover, in FY2018, a part of unsecured loans extended to Qua was converted into equity thereby strengthening its capital structure. The company also enjoys operational support from the group in terms of orders - ~30% of its revenues are from group companies; and flexible credit terms for raw material purchases.

### Credit challenges

**Limited track record of operations leading to slow ramp up of scale and suboptimal capacity utilization, in a highly competitive industry-** Incorporated in 2010, Qua has limited presence in the water treatment industry when compared to peers who have been in existence for over 20 years. Stickiness of clients with membrane manufacturers and established presence of competitors has hindered Qua's quick ramp up in the industry. However, the company is working on procuring large orders through promotional efforts, which is expected to aid improvement in scale over the medium term.

**Profit margins exposed to volatility in international Polyvinyl Chloride(PVC) prices –** The key raw material in membrane manufacturing is PVC and raw material cost constitutes over 55% of total costs. In the absence of any commodity hedging policies, the entity is exposed to raw material price risks which result in volatile profit margins

**Weak liquidity profile due to working capital intensive nature of operations –** The company's working capital intensity is high at ~24% due to long credit periods extended to group companies and high inventory holding period due to bulk procurement of raw materials. Qua's working capital limits are almost fully utilized to fund the same, indicating weak liquidity

**Stretched capitalization indicators due to weak net-worth position due to losses during stabilization phase-** Due to large accumulated losses during the stabilization phase, the company's networth remain weak. Qua's capitalization indicators are stretched with gearing at 2.4 times and TOL/ TNW at 4.9 times.

**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:

Incorporated in 2010, Qua Water Technologies Pvt. Ltd. (Qua/the company) is a wholly owned subsidiary of Aquatech Systems Asia Private Limited (rated at [ICRA]BBB(S)(Stable)/[ICRA]A3+(S)). The company is into development of advanced filtration membrane & membrane related products for water and wastewater treatment applications. Qua manufactures membranes for three processes namely Fractional Electro-deionization, Membrane Bioreactor and Ultrafiltration.

Aquatech Systems Asia Private Limited (ASAPL) (rated at [ICRA]BBB(S)(Stable)/[ICRA]A3+(S)) 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, ASAPL derives majority of its revenues through industrial waste water treatment. In India, the company caters to the industrial segment in India, whereas it caters to the government sector in the Middle East. While AIC caters to the US 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.

In FY2018, Qua reported a net profit of Rs. 0.6 crore on an operating income of Rs. 18.1 crore, as compared to a net profit of Rs. 0.3 crore on an operating income of Rs. 15.4 crore in the previous year.

### **Key financial indicators (audited)**

	<b>FY2017</b>	<b>FY2018</b>
Operating Income (Rs. crore)	15.4	18.1
PAT (Rs. crore)	0.3	0.6
OPBDIT/OI (%)	12.1%	14.8%
RoCE (%)	20.5%	19.1%
Total Debt/TNW (times)	-4.4	2.4
Total Debt/OPBDIT (times)	6.8	2.9
Interest coverage (times)	1.1	1.7

**Status of non-cooperation with previous CRA:** The company is rated by CRISIL at [CRISIL]BB(ISSUER NOT COOPERATING) (Stable)/[CRISIL]A4+(ISSUER NOT COOPERATING)

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
1	Long-term fund based	3.00	NA	[ICRA]BB(Stable)	NA	NA	NA
2	Short-term non-fund based	2.25	NA	[ICRA]A4	NA	NA	NA
3	Long term proposed	1.75	NA	[ICRA]BB(Stable)	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](http://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 fund based	NA	NA	NA	3.00	[ICRA]BB(Stable)
NA	Short-term non-fund based	NA	NA	NA	2.25	[ICRA]A4
NA	Long term proposed	NA	NA	NA	1.75	[ICRA]BB(Stable)

Source: Qua

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