

December 05, 2019

Qua Water Technologies Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based	3.00	3.00	[ICRA]BB(Stable); reaffirmed
Short-term non-fund based	2.25	2.25	[ICRA]A4; reaffirmed
Long-term proposed	1.75	1.75	[ICRA]BB(Stable); reaffirmed
Total	7.00	7.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings continue to draw comfort from the experienced management team of Qua Water Technologies Pvt. Ltd. (Qua); direct and indirect financial support lent by Qua's parent company, Aquatech Systems Asia Private Limited (ASAPL, rated [ICRA]BB+(Stable)/ [ICRA]A4+); and operational support from the Group by way of sales support and flexible credit terms for raw material purchases. The company derives over 30% of its total revenues from the Group companies. Qua's revenues declined by 12% in FY2019 to Rs.15.9 crore due to a reduction in order offtake by the Group companies. This had a cascading effect on profit margins. However, in H1 FY2020, the company exhibited robust revenue growth of 47% over H1 FY2019, backed by new product launches and improved distribution reach. The improvement in scale is expected to result in better absorption of fixed costs, leading to expansion in profit margins in FY2020.

The ratings are, however, constrained by the company's limited track record of operations, leading to small scale of operations with revenues of Rs.15.9 crore in FY2019, amidst entrenched and much larger peers. With raw material costs constituting over 37% of the total costs, Qua's profit margins are exposed to variations in international polyvinyl chloride (PVC) prices, in the absence of any hedging mechanism and limited pricing flexibility in passing on volatility in raw material prices to end customers. Given the working capital-intensive nature of operations, the company's ratings are also constrained by its weak liquidity profile characterised by over 95% utilisation of sanctioned working capital lines and low cash balances.

Key rating drivers and their description

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 its clientele and strong references across geographies.

Operational and financial support from Group companies - The parent company ASAPL extends financial support in the form of unsecured loans and corporate guarantees. 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 utilisation, in a highly competitive industry - Incorporated in 2010, Qua has limited presence in the water treatment industry when compared to its 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 are expected to aid the improvement in scale over the medium term. The company’s operations are concentrated in one manufacturing unit in Pune, exposing it to asset concentration risks.

Profit margins exposed to volatility in international polyvinyl chloride prices – One of the raw materials in membrane manufacturing is polyvinyl chloride (PVC). Raw material cost constitutes over 35% of the total costs. In the absence of any commodity hedging policies, the entity is exposed to raw material price risks, which results in volatile profit margins.

Weak liquidity profile characterised by high working capital utilisation with respect to sanctioned limits – With small scale of operations limiting cash accruals, Qua’s dependence on bank lines for working capital requirement is high, indicating low liquidity in the system.

Liquidity position: Stretched

The company’s liquidity is stretched, given the low cash balances and high utilisation of over 95% in sanctioned working capital lines and low cash balances.

Rating sensitivities

Positive triggers – Substantial improvement in the scale of operations leading to improvement in profitability indicators and liquidity profile on a sustained basis.

Negative triggers – Further deterioration in scale leading to operational losses and stress on liquidity profile. Deterioration in credit profile of ASAPL could also exert downward rating pressure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Parent/Group Company: Aquatech Systems Asia Private Limited The rating assigned to Qua factors in the high likelihood of its parent, ASAPL, extending financial support to it because of close business linkages between them. ASAPL has also extended corporate guarantee for Qua’s bank lines. We also expect ASAPL to be willing to extend financial support to Qua out of its need to protect its reputation from the consequences of a Group entity’s distress. There also exists a consistent track record of ASAPL having extended timely financial support to Qua, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Incorporated in 2010, Qua is a wholly-owned subsidiary of Aquatech Systems Asia Private Limited (ASAPL, rated at [ICRA]BB+(Stable)/[ICRA]A4). The company is into development of advanced filtration membrane and membrane related products for water and wastewater treatment applications. Qua manufactures membranes for three processes - namely Fractional Electro-deionisation, Membrane Bioreactor and Ultrafiltration.

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 specialises in providing turnkey (project-specific) solutions for water and waste-water management. In India, ASAPL derives a majority of its revenues through industrial waste water treatment. In India, the company caters to the industrial segment in India, and also works with the Government sector in the Middle East. While AIC caters to the US and European markets, the Middle East and the Asia-Pacific markets are managed jointly by 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 the 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 a significant presence in North America, Europe, the 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 the 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 minimise net water usage and maximise 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 FY2019, Qua reported a net profit of Rs. 0.5 crore on an operating income of Rs. 15.9 crore, as compared to a net profit of Rs. 0.6 crore on an operating income of Rs. 18.1 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	18.1	15.9
PAT (Rs. crore)	0.6	0.5
OPBDIT/OI (%)	14.8%	11.6%
RoCE (%)	19.1%	13.3%
Total Outside Liabilities/Tangible Net Worth (times)	4.9	3.7
Total Debt/OPBDIT (times)	2.9	2.1
Interest Coverage (times)	1.7	2.1
DSCR	1.8	2.3

Status of non-cooperation with previous CRA:

CRA	Status of Non-cooperation	Date of Press Release
CRISIL Limited	Issuer not cooperating, based on best-available information; Ratings Migrated to 'CRISIL B+/Stable/CRISIL A4 Issuer not cooperating	29 August 2019

Any other information: None

Rating history for past three years

Current Rating (FY2020)			Rating History for the Past 3 Years			
Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
			05-December 2019	03-Sep 2018		
Long-term	3.00	NA	[ICRA]BB(Stable)	[ICRA]BB(Stable)	NA	NA
Short-term	2.25	NA	[ICRA]A4	[ICRA]A4	NA	NA
Long-term	1.75	NA	[ICRA]BB(Stable)	[ICRA]BB(Stable)	NA	NA

Amount in Rs. crore

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	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

Annexure-2: List of entities considered for consolidated analysis - NA

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