

May 26, 2020

## Qua Water Technologies Pvt. Ltd.: Update

### 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); Outstanding
Short-term non-fund based	2.25	2.25	[ICRA]A4; Outstanding
Long-term proposed	1.75	1.75	[ICRA]BB(Stable); Outstanding
<b>Total</b>	<b>7.00</b>	<b>7.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA notes the recent developments in Qua Water Technologies Private Limited (Qua) due to the COVID-19 pandemic and continues to draw comfort from the latter's experienced management team; the direct and indirect financial support lent by Qua's parent company, Aquatech Systems Asia Private Limited (ASAPL, rated [ICRA]BB+(Stable)/ [ICRA]A4+); and the operational assistance from group companies by way of sales support and flexible credit terms for raw material purchases. The company started operations on the first week of May 2020, at 30% capacity. The company's liquidity profile is supported by collections from customers, flexible payment terms with suppliers and external Covid-19 related funding from banks. It has a robust near-term orderbook pipeline. Based on the provisional financials, the company recorded a revenue growth of 42% in FY2020, albeit on a low base. Improvement in scale led to better absorption of costs, thereby expanding the operating margins to 18.1% in FY2021. The management expects a 10-15% revenue moderation in FY2021 because of the pandemic.

The ratings are, however, constrained by the company's limited track record of operations and its small-scale operations (revenues of Rs.22.7 crore in FY2020), amidst entrenched and much larger peers. Given the working capital-intensive 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. Timely collections from customers and timely funding support remain crucial to support the company's liquidity profile with the expected gradual scaling up of capacities from the stipulated 30%, due to the pandemic.

### Key rating drivers and their description

#### Credit strengths

**Experienced management with over two decades of experience in water treatment industry** - The promoters have over two decades of experience in the water treatment industry, which has helped the Group to build 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

**Slow ramp up of scale and suboptimal capacity utilisation because of limited track record of operations** - 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 have hindered Qua's quick ramp up in the industry. However, the company is working on procuring large orders through promotional efforts, an initiative that is likely to improve the scale in the medium term. The company's operations are concentrated in one manufacturing unit in Pune, exposing it to asset concentration risks.

**Weak liquidity profile characterised by high working capital utilisation with respect to sanctioned limits** – With small scale of operations and limited 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 (over 95%) of sanctioned working capital lines. Timely collection of receivables remains crucial for the company to allay liquidity concerns and honour its debt obligations in timely manner.

## Rating sensitivities

**Positive triggers** – Substantial improvement in the scale of operations, thereby improving profitability indicators and liquidity profile on a sustained basis.

**Negative triggers** – Steep 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	<a href="#">Corporate Credit Rating Methodology</a>
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 develops advanced filtration membrane and membrane-related products for water and wastewater treatment applications. Qua manufactures membranes for three processes—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 in Pennsylvania, the US. ASAPL executes plants for waste-water industrial re-use, desalination, and zero liquid discharge, and specialises in turnkey (project-specific) solutions for water and waste-water management. In India, ASAPL derives most of its revenues from industrial waste water treatment. The company caters to the industrial segment in India and 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 in Pennsylvania, the US, Aquatech International Inc (AIC) is one of the major players in the water purification technology for industrial and infrastructure markets, with 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 would profit from Ecolab's large customer base.

#### **Key financial indicators**

	<b>FY2019 (Audited)</b>	<b>FY2020 (Provisional)</b>
Operating Income (Rs. crore)	15.9	22.7
PAT (Rs. crore)	0.5	3.2
OPBDIT/OI (%)	11.6%	18.1%
RoCE (%)	13.3%	14.0%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	2.2
Total Debt/OPBDIT (times)	2.1	0.8
Interest Coverage (times)	2.1	9.3
DSCR	2.3	3.1

#### **Status of non-cooperation with previous CRA:**

<b>CRA</b>	<b>Status of Non-cooperation</b>	<b>Date of Press Release</b>
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 (FY2021)				Rating History for the Past 3 Years		
Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
			26-May 2020	05-Dec 2019	03-Sep 2018	
Long-term	3.00	NA	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)	NA
Short-term	2.25	NA	[ICRA]A4	[ICRA]A4	[ICRA]A4	NA
Long-term	1.75	NA	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)	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](http://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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