VA Tech Wabag Limited

Instrument	Amount	Rating Action
	In Rs Crore	August 2015
Commercial Paper (CP) programme	150.0	[ICRA]A1+; assigned

ICRA has assigned a short term rating of [ICRA]A1+ (pronounced as ICRA A one plus) to the Rs 150.0 crore Commercial Paper (CP) programme of VA Tech Wabag Limited (Wabag/'the company').

ICRA has a rating of [ICRA]AA- (pronounced as ICRA double A minus) outstanding on the Rs 120.0[*] crore fund based bank limits of Wabag. The outlook on the rating is Stable. ICRA also has a short term rating of [ICRA]A1+ outstanding on the Rs 2096.0 crore non-fund based facilities of the company[†].

The assigned rating reflects the robust order book position of the company following healthy order booking in FY 2015 and Q1 FY 2016 as well as demonstrated ability to maintain profitability and healthy return indicators (RoCE) on consolidated basis. The ratings also factor in the company's established position in the water infrastructure business; strong technical capabilities arising out of execution track record, ownership of product and process patents, experienced promoters & management; and, 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 and the large percentage of municipal sector orders in the orderbook. 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 external borrowings. With drawdown of term debt for the Namibia BOOT project 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, warrantee payouts and adverse litigation/arbitration outcomes. The various provisions[‡] made towards bad debts, liquidated damages & warranties have thus restricted the consolidated operating margin, although the RoCE has remained healthy due to asset light nature of operations, over the last four year period. The ratings further take into account the continuing losses in a few overseas subsidiaries, 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 especially considering the losses reported in Q1 2016 in the Turkey subsidiary. ICRA takes note of the increased contingent liabilities for the company which mainly comprises of a large performance guarantee requirement for desalination project being executed through JV in Oman. Further, the ability of the company to reduce the receivable collection cycle remains the key rating sensitivity.

[*] 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

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, Fast 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 456.5 crore and net loss of Rs. 9.9 crore in Q1 FY 2016 as against the operating income of Rs 401.0 crore and PAT of Rs 10.2 crore in the corresponding year-ago period.

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