

October 11, 2017

VA Tech Wabag Limited

Summary of rated instruments

Instrument	Amount In Rs Crore	Rating Action
		October 2017
Long term: Fund based facilities	300.0	[ICRA]AA- &; Under rating watch with developing implications
Long term: Proposed Fund based facilities	200.0	[ICRA]AA- &; Under rating watch with developing implications
Short term: Non-fund Based Facilities	2346.0	[ICRA]A1+ &; Under rating watch with developing implications
Short term: Proposed Non-fund Based	154.0	[ICRA]A1+ &; Under rating watch with developing implications

* Instrument Details are provided in Annexure I

Rating Action

ICRA has placed the [ICRA]AA- (pronounced as ICRA double A minus) and [ICRA]A1+ (pronounced ICRA A one plus) on the Rs 3000 crore¹ bank facilities of VA Tech Wabag Limited (Wabag/'the company') under 'Rating Watch with Developing implications'².

Rationale

The rating action follows the initiation of Corporate Insolvency Resolution Process (CIRP) by National Company Law Tribunal (NCLT) against Wabag. The Chennai bench of NCLT has passed the final order on 6th October 2017 following a plea from Consolidated Construction Consortium Limited (CCCL) in respect of an alleged default in payment of dues of Rs 1.50 crore. An Insolvency Resolution Professional (IRP) has been appointed to supersede the Board of Directors of the Company and conduct a financial due diligence within the moratorium period.

The management of Wabag contends that this is a commercial dispute – CCCL was awarded a contract in 2009 towards construction of a Water Treatment Plant and did not complete its scope of work – and that the company is solvent with high cash balances and undrawn lines of credit from lenders. Hence Wabag has appealed against NCLT's order in the National Company Law Appellate Tribunal (NCLAT). ICRA will continue to monitor the developments with regards to this and take an appropriate rating action in case of an impact on the company's credit profile.

Key Rating Drivers

Credit Strengths

- **Established position of the Company as the market leader in the domestic water/waste-water treatment project execution business** – Wabag group has a strong technological background, with the Austrian subsidiary having technical know-how/patents and with technically experienced key management personnel. Hence the company has grown into a large multinational player in the water space with a large presence in many geographies. The long term potential for water & waste treatment projects from municipal and industrial users is also favourable in the company's target markets which include Middle East, North Africa, Eastern/Central Europe apart from India.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

- **Healthy order-book position of ~Rs 8278 crore as of June 2017 backed by strong order intake -** Wabag's orderbook continues to be robust following from its technological competitiveness and leading market position in India and key overseas geographies. The company has a diverse orderbook with projects across EPC, O&M, Municipal and Industrial segments and has a good geographical mix of orders. Some large orders like Petronas Malaysia, Polghawella Sri Lanka and Koyambedu Chennai have contributed to a significant portion of the order additions and revenues in the recent past.
- **Strong financial position characterised by steady profitability and highly conservative capital structure** – Despite the inherent volatility in the project business, the company has maintained operating profitability at similar levels in both standalone and consolidated operations through various cost rationalization measures like restructuring and focus on high margin services. Also, despite the working capital intensive nature of the business, the company has relatively low debt levels mainly owing to the credit support due to the back to back nature of most subcontracts. This has resulted in maintenance of low gearing levels and a sizeable cash surplus.

Credit Weakness

- **High level of working capital intensity inherent in the project business-** The Company's debtor levels continue to remain high due to delays in payments by some clients and higher amounts held as retention for completed projects; the back-to-back credit arrangement for supplies and the healthy cash balances mitigate the risk to an extent
- **Margins exposed to input price volatility, provision outgo and overseas operations -** Stringent contractual terms like absence of escalation clauses for a significant portion of the orderbook, liquidated damages and warranty obligations restrict the profitability. The company faced a delay in completion of the large Al-Ghubrah desalination project and had reported a one-time loss towards the LD outgo for the project. In addition, some of the key overseas subsidiaries like Austria and Turkey have been impacted by high cost of operations which has in turn had an impact on consolidated profitability.
- **High Total Outside Liabilities and Contingent liabilities relative to the Net Worth of the Company** – Though the company has minimal borrowings, the working capital has been funded mostly through supplier credit and hence the overall outside liabilities continues to remain high relative to the net worth position. Also, the contingent liabilities have been typically higher due to issuance of guarantees towards contract performance and borrowings of subsidiaries. However, the contingent liability exposure has moderated following the extinguishment of liabilities towards the Oman project.

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 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, Far East-China, and South East/Central/Eastern Europe.

Key Financial Indicators (Audited)

Consolidated	FY2016	FY2017
Operating Income (Rs. crore)	2508.3	3207.9
OPBDIT (Rs. crore)	233.0	296.6
PAT (Rs. crore)	90.3	112.2
OPBDIT/ OI (%)	9.3%	9.2%
PAT/OI (%)	3.6%	3.5%
Total Debt/ TNW (times)	0.42	0.32
Total Debt/ OPBDIT (times)	1.67	1.06
Interest coverage (times)	5.09	5.64

Source: Audited IndAs financials of the company. OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation;

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month-year & Rating in FY2016	Month-year & Rating in FY2015
				October 2017	February 2017	February 2016	November 2014
1	Fund based facilities	Long Term	300.0	[ICRA]AA- &;	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] A+ (Stable)
2	Proposed fund based	Long Term	200.0	[ICRA]AA- &;	[ICRA] AA- (Stable)	-	-
3	Non-fund based facilities	Short Term	2346.0	[ICRA]A1+ &;	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
4	Proposed non fund based	Short Term	154.0	[ICRA]A1+ &;	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+

&- Under rating watch with developing implications

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
Details of Instrument

ISIN	Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
-	Fund based facilities	-	NA	NA	300.0	[ICRA]AA- &
-	Proposed fund based	-	NA	-	200.0	[ICRA]AA- &
-	Non fund based facilities	-	-	NA	2346.0	[ICRA]A1+ &
-	Proposed non fund based	-	-	-	154.0	[ICRA]A1+ &



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