

## VA Tech Wabag Limited

March 30, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund based facilities	300.0	487.5	[ICRA]AA- (Stable); outstanding
Long Term: Proposed fund based facilities	200.0	12.5	[ICRA]AA- (Stable); outstanding
Short Term: Non fund based facilities	2346.0	2500.0	[ICRA]A1+; outstanding
Short Term: Proposed facilities	154.0	-	
<b>Total</b>	<b>3000.0</b>	<b>3000.00</b>	

### Rating action

ICRA has a long term rating of [ICRA]AA- (pronounced ICRA double A minus) and short term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 3000 crore bank facilities of VA Tech Wabag Limited (“VA Tech”/“the company”); the outlook on the long term rating is Stable.

### Rationale

The rating continues to reflect the robust order book position of the company following healthy order booking in FY 2016 and Year-To-Date FY 2017, aided by company’s established position in the water infrastructure business with its strong technical capabilities arising out of execution track record, ownership of product and process patents as well as experienced promoters & management. The ratings also take into account 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 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, warranty payouts and adverse litigation/arbitration outcomes. The various provisions<sup>1</sup> made towards bad debts, liquidated damages, warranties & contract losses have thus restricted the consolidated operating margin. With high working capital requirements in domestic business & weak profitability in overseas subsidiaries, RoCE on overall basis has contracted from 23% in FY2014 to 17% in FY2016. 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 large losses reported by few entities in FY 2016.

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, the credit period has seen a moderate reduction in the recent past driven by the subdued macroeconomic scenario and the weak liquidity profile of a majority of the suppliers. This is also reflected from increase in NWC/OI (Net working capital / Operating Income) from 17% in FY 2014 to 33% in FY2016. The company in turn has funded the increase in working capital requirements partly through usage of cash available and partly through borrowings. With full drawdown of term debt for the Namibia BOOT

<sup>1</sup> Provisions for bad debts, LDs and warranties made year on year based on the company’s accounting policy

project (for which the repayments have also commenced) the consolidated debt levels have increased, though the gearing level still remains comfortable.

The ability of Wabag to reduce the receivable collection cycle and improve the consolidated profitability would be the key rating sensitivities going forward.

### Outlook: Stable

ICRA believes VA Tech Wabag's credit profile will remain healthy supported by the robust orderbook position, steady profitability and high supplier credit which aids the working capital position. The outlook may be revised to 'Positive' if there is significant improvement in Wabag's financial profile aided by growth in revenues and margins. The outlook may be revised to 'Negative' if Wabag's financial profile weakens due to lower cash accruals on account of significant drop in margins or adverse movement in the working capital intensity.

### 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.

**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 challenges

**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)

	FY 2016	FY 2017
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

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

		Chronology of Rating History for the past 3 years						
		Current Rating (FY2018)						
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016
				Mar 2018	Oct 2017	Oct 2017	Mar 2017	Feb 2016
1	Fund based facilities	487.5	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(&); Rating watch with developing implications	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2	Unallocated	12.5	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(&); Rating watch with developing implications	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
3	Non fund based facilities	2500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+; Rating watch with developing implications	[ICRA]A1+	[ICRA]A1+

**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	Cash Credit	NA	NA	NA	487.5	[ICRA]AA- (Stable)
NA	Unallocated	NA	NA	NA	12.5	[ICRA]AA- (Stable)
NA	Bank Guarantees / Letter of Credit	NA	NA	NA	2500.0	[ICRA]A1+

Source: VA Tech Wabag Limited

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