

VA Tech Wabag Limited

July 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund based facilities	487.5	500.0	[ICRA]AA- (Negative); reaffirmed
Long Term / Short term: Non fund based facilities	-	3058.5	[ICRA]AA- (Negative) / [ICRA]A1+; reaffirmed
Long Term / Short term: Proposed facilities	-	441.5	[ICRA]AA- (Negative) / [ICRA]A1+; reaffirmed
Long Term: Proposed fund based facilities	12.5	-	-
Short Term: Non fund based facilities	2500.0	-	-
Short Term: Proposed non fund based	1000.0	-	-
Total	4000.00	4000.00	

Rating action

ICRA has reaffirmed the long term rating of [ICRA]AA- (pronounced ICRA double A minus) and the short term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 4000 crore revised bank facilities of VA Tech Wabag Limited (“VA Tech”/“the company”); the outlook on the long term rating is ‘Negative’.

Rationale

The ‘Negative’ rating outlook reflects the increased working capital intensity and the moderation in the liquidity profile of the company following an increase in the receivables (including the retention money) pending with clients. Specifically, receivables pertaining to the APGENCO projects have increased significantly in the recent past. Though both the BoP projects of APGENCO are now largely complete, the pending amounts are large and timely collection of these amounts will remain a key rating sensitivity.

The rating continues to reflect the healthy consolidated order book position of the company at ~Rs 6800 crore (excluding framework orders), 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 capital structure and coverage indicators which are comfortable notwithstanding the moderate in the profitability and the high operational working capital intensity.

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 provisions¹ made towards bad debts, liquidated damages, warranties &

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

contract losses have thus restricted the consolidated operating margin over the years. Though there has been a noticeable improvement in the profitability of the key European entities, like Austria, through various cost rationalization measures, large losses in other subsidiaries and JVs like Oman and Turkey in the last few years have stressed the consolidated profitability. With high working capital requirements in domestic business & weak profitability in overseas subsidiaries, RoCE on overall basis has contracted from 23% in FY2014 to 19% in FY2018.

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, this support has not been available for the gap arising out of the APGENCO orders given the necessity to fund the creditors of the consortium partners in order to fast-track project execution. This is also reflected from the increase in NWC/OI (Net working capital / Operating Income) from 17% in FY 2014 to 36% in FY2018. 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 project (for which the repayments have also commenced) the consolidated debt levels have increased, though the gearing level still remains comfortable.

Outlook: Negative

ICRA believes Wabag's credit profile will remain weighed down by the receivables from the APGENCO orders and the associated working capital borrowings. The outlook may be revised to 'Stable' if there are significant collections of these amounts in the near term which will bring down the overall receivables position and improve the company's liquidity.

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 orderbook position at consolidated level – Wabag's orderbook continues to be healthy 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, APGENCO, Polghawella Sri Lanka and Koyambedu Chennai have contributed to a significant portion of the order additions and revenues in the recent past.

Financial position characterised by steady profitability and conservative capital structure – Despite the inherent volatility in the project business, the company had maintained operating profitability at similar levels in both standalone and consolidated operations through various cost rationalization measures. 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. Notwithstanding a moderate dip in profitability in FY 2018 and an increase in the working capital intensity / borrowings, the absolute gearing and coverage levels remain comfortable

Credit challenges

Significant increase in the overall working capital intensity due to large receivables from APGENCO – 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. Further, the pending amounts with APGENCO for the BoP projects have resulted in a worsening of the ageing profile of the receivables. The back-to-back credit arrangement for supplies mitigates the risk to an extent.

The company had cash balances of Rs 409 crore in March 2016 owing to the healthy accretion over the years and management of working capital requirements through creditor support. However, this has declined to Rs 190 crore in March 2018 and hence the net debt levels have increased.

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. The Indian operations have also seen a decline in the profitability owing to the execution of low margin orders like APGENCO and increase in competitive pressures in the recent years following the attractiveness of the sector. Owing to the above-mentioned factors, RoCE on overall basis has contracted from 23% in FY2014 to 19% in FY2018.

High Total Outside Liabilities and Contingent liabilities relative to the Net Worth of the Company – Though the company has had minimal borrowings traditionally, 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 2017	FY 2018
Operating Income (Rs. crore)	3207.9	3457.3
OPBDIT (Rs. crore)	296.6	291.8
PAT (Rs. crore)	112.2	144.5
OPBDIT/ OI (%)	9.2%	8.4%
PAT/OI (%)	3.5%	4.2%
Total Debt/ TNW (times)	0.32	0.41
Total Debt/ OPBDIT (times)	1.06	1.64
Interest coverage (times)	5.64	5.06

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 (FY2019)					Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating		Mar 2018	Oct 2017	Oct 2017	Feb 2017	Feb 2016	
				Jul 2018	Jul 2018						
1	Fund based facilities	Long Term	500.0	-	[ICRA]A A- (Negative)	[ICRA]A A- (Negative)	[ICRA]A A- (Stable)	[ICRA]A A- (Stable)	[ICRA]AA - (&); Rating watch with developing implications	[ICRA]A A- (Stable)	[ICRA]A A- (Stable)
2	Non fund based facilities	Long Term / Short Term	3058.5	-	[ICRA]A A- (Negative) / [ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A 1+	[ICRA]A1 +; Rating watch with developing implications	[ICRA]A 1+	[ICRA]A 1+
3	Unallocated	Long Term / Short Term	441.5	-	[ICRA]A A- (Negative) / [ICRA]A 1+	[ICRA]A 1+	-	-	-	-	-

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 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	500.0	[ICRA]AA- (Negative)
NA	Bank Guarantees / Letter of Credit	NA	NA	NA	3058.5	[ICRA]AA-(Negative) / [ICRA]A1+
NA	Unallocated, Short Term	NA	NA	NA	441.5	[ICRA]AA-(Negative) / [ICRA]A1+

Source: VA Tech Wabag Limited

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