

Press Release

Aventura Components Pvt Ltd.

March 09, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Current Rating	Rating Action
1	Fund Based Facilities	14.00	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	Revised from IVR BBB+/Stable Outlook (IVR Triple B Plus with Stable Outlook)
2	Non Fund Based Facilities	81.00 (including proposed limits of Rs.19 crore)	IVR A3+ (IVR A Two)	Revised from IVR A2 (IVR A Two)

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating factors in decline in the profitability margins of the company and delays in the tie-up of the working capital limits resulting in stretched liquidity position of the company. However, the ratings derive strength from the experienced promoters, presence of reputed shareholders in the group, diversified offerings by the group and presence of the company in a niche product segment. The ratings further derive comfort from the group's reputed & diversified clientele, moderate capital structure and increasing potential of water sales.

The ratings, however, are tempered by working capital intensive nature of operations, volatility related to input costs and foreign exchange fluctuations and competitive and fragmented nature of industry.

Profitability, liquidity, leverage and efficient management of working capital along with funding tie-up of additional limits are the key rating sensitivities.

List of Key Rating Drivers

- *Experienced Promoter*
- *Presence of Reputed Shareholders in the group*

- *Diversified product offerings by the group*
- *Reputed and diversified clientele of the group*
- *Moderate capital structure*
- *Increasing Potential of Water Sales*
- *Decline in profitability margins*
- *Delays in the tie-up of the working capital limits*
- *Working Capital Intensive Nature of Operation*
- *Volatility related to input costs and foreign exchange fluctuations*
- *Competitive and Fragmented Nature of Industry*

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced Promoter

Mr. Sunil Ghorawat is the MD of Aventura Components Private Limited (ACPL). He has an experience of more than two decades of working in the water treatment and allied industries, wherein he has worked with Pentair, a reputed US based entity engaged in a similar line of business.

Presence of Reputed Shareholders in the group

ACPL is a subsidiary of Earth Water Limited (EWL), which enjoys the presence of reputed shareholders like CLSA as well as an Indian entity associated with a reputed group, who hold a small stake in EWL through their investment companies. Also, the investment entity of CLSA has been allotted compulsorily convertible preference shares in EWL.

Diversified product offerings of the Group

The group is an integrated, water sector player in India, offering solutions across the entire end-user spectrum. Recently, the Group has forayed into water sales, through water ATMs and dispensers, under its brand “Waterpoint”, which are available at multiple locations, including railways, and urban and rural locations on a pan-India basis.

Reputed and diversified clientele of the group

The group has supplied small scale water equipments and undertaken EPC contracts for Reliance Group, Aditya Birla Group, Larsen& Toubro, Cairn Energy, Radisson Hotels,

Siemens Limited etc in the past. Further, the group's top 10 customers account for around less than 50% of the total revenues, reflecting reputed and diversified clientele.

Moderate capital structure

The company has a moderate capital structure with overall gearing ratio of 0.80x as on March 31, 2018 as against 1.65x as on March 31, 2017.

Increasing Potential of Water Sales

The Government of India is giving lot of thrust on availability of safe drinking water. The group by virtue of its experience in the water treatment and allied product industry is expected to benefit out of the steps being taken by the Government for the same. The group has already set up some water purification equipments and water vending machines on railway stations for providing packaged drinking water which have already started contributing a small portion to the revenues and profitability of the company. This is a high margin segment for the group.

Key Weaknesses:

Decline in profitability margins

Operating margin of the company dipped from 6.65% in FY18 to 3.20% in H1FY19 on account of higher proportion of sales of standard equipment (wherein the margin is lower as compared to specialized equipment).

Delays in the tie-up of the working capital limits

Though the promoters have infused their own funds aggregating to Rs.40.74 crore in H1FY19 period to support the operations. There have been delays in the tie-up of the working capital limits resulting in stretched liquidity position of the company. ACPL's utilisation of fund based limits were almost always fully utilized during the past 12 months ended February 2019. Further, there were overdrawals due to delays in tying up of additional limits to support the scale of operation.

Working Capital Intensive Nature of Operation

The collection period is high at around four-five months, primarily owing to orders from Government entities and civic bodies. The company also avails high credit period of around four months from its suppliers, reflecting working capital intensive nature of operation.

Volatility related to input costs and foreign exchange fluctuations

Stringent contractual terms like fixed price contracts expose the company's profitability to risks related to any adverse fluctuation in the prices of primary raw materials like steel and cement. Out of the total raw material requirement for the group, around 30% is imported. The company does not have any fixed hedging policy in place, thus, the company's profitability may be impacted due to the depreciation of the rupee.

Competitive and Fragmented Nature of Industry

The water and water treatment industry in India is highly fragmented and relatively unorganized, due to the presence of a large number of small scale units leading to high competition in the industry. However, due to the diversification in operations and asset light business streams, this risk is mitigated to an extent. Ability of the company to maintain its profitability margins amidst growing scale of operation needs to be observed.

Analytical Approach & Applicable criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The average utilisation of working capital limits stood almost full during the past 12 months ended February 2019. Further, as indicated by the management and the company's bankers, there have been overdrawals at various points in time. Though the company does not have any major debt repayment over the next one year, any further delay in tying up of limits is a concern.

About the Company

Aventura Components Private Limited (ACPL) is engaged in the assembling and supplying various types of water treatment equipments. The company is a subsidiary of EWL, which

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primarily consists of supplying various types of water treatment plants and equipments, and undertaking EPC projects for recycling waste water. Mr. Sunil Ghorawat is the MD of Aventura Components Private Limited (ACPL). He has an experience of more than two decades of working in the water treatment and allied industries, wherein he has worked with Pentair, a reputed US based entity engaged in a similar line of business. The company has its facility located at Faridabad, wherein it assembles various components which are used for its small scale equipments.

Financials (Standalone Basis)

(Rs. crores)

For the year ended / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	256.02	312.08
EBITDA	9.73	20.75
PAT	2.99	9.64
Total Debt	35.24	24.72
Tangible Networth	21.35	30.80
EBITDA Margin (%)	3.80	6.65
PAT Margin (%)	1.17	3.09
Overall Gearing Ratio (x)	1.65	0.80

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Mr. Alok Kumar Misra who is a member of the Board of Directors of INFOMERICS is also on the Board of EWL, which is ACPL's holding entity. He did not participate in any of the discussions and processes related to the aforesaid rating.

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits	Long Term	14.00	IVR BBB/ Stable Outlook	IVR BBB+/ Stable Outlook (May 31, 2018)	--	--	--
2.	Short Term Non-	Short	95.00	IVR A3+	IVR A2			

Fund Based Facilities (incl. limit of Rs.19.00crore)	Term			(May 31, 2018)			
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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	NA	NA	NA	14.00	IVR BBB/ Stable Outlook
Short Term Fund based facilities- LC/BG/Buyer's Credit	NA	NA	NA	81.00 (including proposed 19.00)	IVR A3+