

Press Release

Earth Water Ltd.

May 31, 2018

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Fund Based Facilities	54.00 (including proposed limits of Rs.37 crore)	IVR A-/ Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
2	Non Fund Based Facilities	112.00 (including proposed limits of Rs.40 crore)	IVR A2+ (IVR A Two Plus)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings derive strength from the experienced promoters, presence of reputed shareholders in the company, diversified offerings and presence of the company in a niche product segment. The ratings further derive comfort from the company's reputed & diversified clientele, healthy growth in revenues and improvement in profitability, improving debt protection metrics 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, leverage and working capital management are the key rating sensitivities.

List of Key Rating Drivers

- *Experienced Promoter*
- *Presence of Reputed Shareholders*
- *Diversified Offerings and Niche Product Segment*
- *Reputed and diversified clientele*

- *Healthy growth in revenues and improvement in profitability*
- *Improving Capital Structure and Debt Protection Metrics*
- *Increasing Potential of Water Sales*
- *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 and Chairman of Earth Water Limited (EWL). 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. He was also the Managing Director of the Indian operations of the entity, prior to setting up EWL. He is assisted in the day-to-day-affairs of the entity by a team of experienced professionals.

Presence of Reputed Shareholders

EWL enjoys the presence of reputed investors like CLSA as well as an Indian entity associated with a reputed group, who hold a small stake in the company through their investment vehicles. Also, the investment entity of CLSA has been allotted compulsorily convertible preference shares.

Diversified Product offering of the Group

The group is an integrated, water sector player in India, offering solutions across the entire end-user spectrum. The Group is a leading implementer and systems integrator of projects, products and services in the water and wastewater treatment sector, with expertise in sewage recycling, sea water desalination and industrial zero liquid discharge/recovery solutions. The Group offers various types of components, and specializes in technical components, which requires significant technical and engineering capabilities and know-how.

Further, EWL offers Operating & Maintenance services for its EPC projects as well as on third party basis. 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. Thus, the Group has established a diversified presence across user-segments with multiple offerings, enabled by engineering technology solutions in the sector.

Reputed and diversified clientele

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 including Government of Karnataka, Government of Andhra Pradesh, Government of Bihar, Government of Telangana, Adani Power and Cairn India, etc. accounted for around 35% of the total revenues during FY17, reflecting reputed and diversified clientele.

Healthy growth in revenues and improvement in profitability

The company's total revenues has increased from Rs.161.94 crore in FY16 to Rs.361.00 crore in FY17 (around Rs.418.94 crore in FY18) due to various certifications received from completion of earlier projects enabling the group to undertake various other projects. Also, increasing focus by the Government on sanitation and healthcare facilities has benefitted the group. Subsequently, the profitability margins of the company has improved from 6.99% in FY16 to 9.60% in FY17 mainly due to higher revenues in the services and water sales segments, wherein the margins are higher. This is further expected to improve to around 15.10% in FY18.

Improving Debt Protection Metrics

The company has a moderate capital structure with long term debt-equity and overall gearing ratio of 0.48x and 0.71x as on March 31, 2017 (estimated to improve to 0.90x as on March 31, 2018). The interest coverage ratio is comfortable at 2.71x as on March 31, 2017. Overall Debt/GCA was moderate at 5.74x, although Long Term Debt/EBITDA was comfortable at 1.69x as on March 31, 2017, also the same are expected to improve to around 3.97x and 1.65x respectively as on March 31, 2018.

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. EWL 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 company. The company is in the process of setting up further equipments, which reflects significant upside potential for the company.

Key Weaknesses:

Working Capital Intensive Nature of Operation

EWL average utilisation of its fund based limits for the past 12 months ended March 2018 stood at 92.23%. The company also had to rely on some adhoc limits during the same period. 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:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Earth Water Limited (EWL, erstwhile Fontus Water Private Limited) effectively commenced operations from 2001, which primarily consists of supplying various types of water treatment plants and equipments, and undertaking EPC projects for recycling waste water, which includes use of Zero Liquid Discharge, Desalination and other advanced techniques to make water fit for industrial use and for human consumption. The promoter group led by Mr. Sunil Ghorawat hold about 35% of EWL, while other entities including Aqua Nova Investments Holdings Pte. Ltd. (investment company of CLSA group) hold the balance through their investment vehicle. Also, this entity has been allotted 12.28 lac Compulsorily Convertible Preference Shares (CCPS), which will be converted to equity only on certain events like IPO etc. EWL is the holding company of the group and has 4 direct subsidiaries at present: Aventura Components Pvt. Ltd. (83.62%), Geist Research Pvt. Ltd. (100%), Fontus Water PTE Ltd (100%) and Healthpoint Services Pvt. Ltd. (62.96%). Out of these, only Aventura Components Pvt. Ltd. has substantial operations, wherein it is engaged in supplying and servicing various types of water treatment components while the other entities do not have any significant operations.

Financials (Standalone Basis)

(Rs. crores)

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Provisional)
Total Operating Income	361.00	418.94
EBITDA	34.64	63.24
PAT	12.15	25.72
Total Debt	87.81	133.87
Tangible Networth	123.37	149.09
EBITDA Margin (%)	9.60	15.10
PAT Margin (%)	3.37	6.14
Overall Gearing Ratio (x)	0.71	0.90

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Disclosure: Mr. Alok Kumar Misra who is a member of the Board of Directors of INFOMERICS is reportedly likely to join the Board of EWL. 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 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits (incl. proposed limit of Rs.37.00 crore)	Long Term	54.00	IVR A-/ Stable Outlook	--	--	--
2.	Short Term Non-Fund Based Facilities (incl. proposed limit of Rs.40.00 crore)	Short Term	112.00	IVR A2+			

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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	54.00 (including proposed 37.00)	IVR A-/ Stable Outlook
Short Term Fund based facilities- LC/BG/Buyer's Credit	NA	NA	NA	112.00 (including proposed 40.00)	IVR A2+