

Press Release

**Earth Water Ltd.**

**March 09, 2019**

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Current Rating	Rating Action
1.	Fund Based Facilities	54.00 (including proposed limits of Rs.37 crore)	IVR BBB/Stable Outlook [IVR Triple B/Stable Outlook]	Revised from IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
2.	Non Fund Based Facilities	112.00 (including proposed limits of Rs.40 crore)	IVR A3+ (IVR A Three Plus)	Revised from IVR A2+ (IVR A Two Plus)
	<b>Total</b>	<b>166.00</b>		

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The revision in the rating factors the delay in filing the Draft Red herring prospectus (DRHP) along with the tie-up of the enhanced working capital limits resulting in stretched liquidity position of the company. At the time of initial rating, EWL was expected to file the Draft Red Herring Prospectus (DHRP) within the next few weeks, however the same has not yet taken place. The same has been getting delayed on account of various reasons like change in SEBI regulations, market scenario at present, etc.

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, healthy profitability margins, 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*
- *Diversified Offerings and Niche Product Segment*
- *Reputed and diversified clientele*
- *Healthy profitability margins*
- *Moderate capital structure*
- *Increasing Potential of Water Sales*
- *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 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.

#### *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. 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.

### ***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 account for around less than 50% of the total revenues, reflecting reputed and diversified clientele.

### ***Healthy profitability margins***

The company reports healthy profitability margins (EBITDA margins) in the range of 13%-15%.

### ***Moderate capital structure***

The company has a moderate capital structure with long term debt-equity and overall gearing ratio of 0.67x and 0.86x as on March 31, 2018 as against 0.48x and 0.71x 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. 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.

### **Key Weaknesses:**

#### ***Delays in the tie-up of the working capital limits***

Though the promoters have infused their own funds aggregating to Rs.31.55 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. EWL'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,

## Infomerics Valuation And Rating Pvt. Ltd.



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**

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.

### **Financials (Standalone Basis)**

(Rs. crores)

<b>For the year ended* / As On</b>	<b>31-03-2017 (Audited)</b>	<b>31-03-2018 (Audited)</b>
Total Operating Income	361.00	433.27
EBITDA	34.64	58.41
PAT	12.15	27.65
Total Debt	87.81	130.24
Tangible Networth	123.37	151.03
EBITDA Margin (%)	9.60	13.48
PAT Margin (%)	3.37	6.38
Overall Gearing Ratio (x)	0.71	0.86

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 a member on 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 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 (incl. proposed limit of Rs.37.00 crore)	Long Term	54.00	IVR BBB/ Stable Outlook	IVR A-/ Stable Outlook (May 31, 2018)	--	--	--
2.	Short Term Non-Fund Based Facilities (incl. proposed limit of Rs.40.00 crore)	Short Term	112.00	IVR A3+	IVR A2+ (May 31, 2018)			

**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](http://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 BBB/ Stable Outlook
Short Term Fund based facilities- LC/BG/Buyer's Credit	NA	NA	NA	112.00 (including proposed 40.00)	IVR A3