

Press Release

Aqua Machineries Private Limited

September 23, 2020



Rating Reaffirmed, Assigned & Withdrawn

Total Bank Facilities Rated*	Rs.35.50 Cr. (Enhanced from Rs.32.50 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed, assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.35.50 crore bank facilities of Aqua Machineries Private Limited. The outlook is '**Stable**'.

The rating reaffirmation draws comfort on account of a long track record of operations, experience of promoters for over three decades, reputed clientele, moderate financial risk profile with moderate debt protection metrics, adequate liquidity as reflected by high NCA against repayment obligations and judicious utilization of the working capital facilities. Coupled to that, the new capex plan to manufacture HT motors in the house is expected to add further comfort on revenue and margins, going forward. The rating, however, remains constrained at the same level on account of working capital-intensive operations and declining margins since last three years from FY2018 to FY2020 (Prov).

About the Company

Gujarat based, AMPL was incorporated in 1984 and is engaged in the manufacturing of various industrial pumps and submersible pumps and also undertakes design, engineering, installation and commissioning of various water management projects. The company is promoted by Mrs. Kalindiben J. Patel, Mr. Abhinay J. Patel and Mrs. Nirali A. Patel, who have over three decades of experience in this industry.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of AMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations along with reputed clientele**

AMPL, promoted by Mrs. Kalindiben J. Patel, Mr. Abhinay J. Patel and Mrs. Nirali A. Patel have over three decades of experience in the said line of business. The extensive experience, coupled with a long track record of operations, has enabled the company to forge healthy relationships with customers and suppliers. Further, the company caters to reputed clientele such as Bharat Heavy Electricals Limited (BHEL), Larsen & Toubro (L&T) and National Thermal Power Corporation Limited (NTPC Limited) to name a few. The installed capacity is 3000 pumps per annum with ~79% utilization resulting in revenue of Rs.70.37 Cr (Prov.) in FY2020 against Rs.93.30 Cr in the previous year. Currently, in 8MFY2021, the company has received a healthy order book of Rs.82.42 Cr. Acuité believes that the business is expected to benefit from its established presence in the aforementioned industry and the director's demonstrated ability.

- **Comfortable financial risk profile**

AMPL's financial risk profile is comfortable marked by healthy gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), supported adequately by healthy debt protection metrics. The gearing stood moderate at 0.38 times as on 31st March, 2020 (Prov) against 0.52 times as on 31st March, 2019. The gearing is expected to increase in FY2021, though not above unity, on account of a fairly modest capex, for adding manufacturing capacity, of Rs.6.39 Cr funded by debt-equity of 70:30. TOL/TNW is at 1.43 times as on 31st March, 2020 (Prov) against 1.42 times as on 31st March, 2019. Tangible net worth of the company stood modest at Rs.36.18 Cr as on 31st March, 2020 against Rs.33.24 Cr as on 31st March, 2019. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood healthy at 5.67 times and 0.47 times,

respectively in FY2020 (Prov) on account of moderate profitability margins of 9 percent. Acuité believes that the financial risk profile of the company is expected to remain comfortable on account of moderate cash accruals vis- à-vis nominal debt repayment obligations and healthy debt protection metrics.

Weaknesses

- **Working capital intensive operations**

AMPL's operations are highly working capital intensive as highlighted by GCA days of 316 days in FY2020 (Prov) against 215 days in FY2019. This is majorly driven by high inventory holding period of 185 days in FY2020 (Prov) against 92 days in FY2019. The collection cycle followed by the company is in the range of 0 to 90 days as reflected by 95 days in FY2020 (Prov) against 95 days in FY2019. The working capital limits were utilized at 70 percent through 17 months ended in August, 2020. Acuité believes that the working capital operations are expected to remain high with respect to the business cycle and which will remain a key rating sensitivity factor.

- **Declining margins**

The operating margins stood at 9.11 percent in FY2020 (Prov) against 11.29 percent in FY2019. The profitability margins stood at 4.15 percent in FY2020 (Prov) against 3.80 percent in FY2019. The decline in margins is mainly due to increase in raw material prices and high competition. The prices of metals such as castings, cables (made of copper), aluminum, etc. fluctuate as they are directly linked to international prices. The major raw material is casting, which 50-55 percent of the total RM cost. The operating margins are expected to be at 7.00 percent for FY2021 and the profitability margins is expected to be at 3.65 percent for FY2021. The company plans to expand their business by constructing a new adjoining shed and procure new machineries to start manufacturing of HT motors. This is expected to expand the revenues and margins going forward.

Rating Sensitivities

- Any stretch in working capital operations leading to a deterioration of its financial risk profile and liquidity.
- Growth in revenue with the sustainability of the profitability margins.

Material Covenants

None

Liquidity: Adequate

AMPL has adequate liquidity, marked by adequate net cash accruals to its maturing debt obligations. The company has generated cash accruals of Rs.6.42 Cr in FY2020 (Prov.) against nil repayment obligations for the same period. Going forward the net cash accruals are expected to be in the range of Rs.5.02 Cr to Rs.14.17 Cr against debt obligations in the range of Rs.0.72 Cr to Rs.1.08 Cr through FY2021 to FY2023. The working capital limits were utilized at 70 percent through 17 months ended August, 2020. The current ratio stood at 1.34 times as on 31st March, 2020 (Prov). Unencumbered cash and bank balances stood at Rs.2.04 Cr as on 31st March, 2020 (Prov). The company has not availed any moratorium during the period of lockdown, i.e. April to June, under the RBI guidelines. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuité believes that AMPL will maintain 'Stable' outlook in the medium term on account of a long track record of operations, experienced management and reputed clientele. The outlook may be revised to 'Positive' if the firm registers higher than expected growth in revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or in case of any significant withdrawal of capital and stretch in its working capital management leading to a deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	70.37	93.30
PAT	Rs. Cr.	2.92	3.54
PAT Margin	(%)	4.14	3.80
Total Debt/Tangible Net Worth	Times	0.41	0.52
PBDIT/Interest	Times	5.59	6.35

Status of non-cooperation with previous CRA (if applicable)

- Brickwork Ratings, vide its press release dated Oct 30, 2019 had denoted the rating of Aqua Machineries Private Limited as 'BWR B+/Stable/BWR A4; DOWNGRADED & ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.
- CRISIL, vide its press release dated Sept 06, 2019 had denoted the rating of Aqua Machineries Private Limited as 'CRISIL B+/Stable/CRISIL A4; DOWNGRADED & ISSUER NOT CO-OPERATING' on account of lack of adequate information required for monitoring the ratings.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Jul-2019	Cash Credit	Long Term	12.77	ACUITE BBB-/ Stable (Reaffirmed)
	Term Loan	Long Term	1.73	ACUITE BBB-/ Stable (Reaffirmed)
	Letter of Credit	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	16.00	ACUITE A3 (Reaffirmed)
24-Oct-2018	Cash Credit	Long Term	9.00	ACUITE BBB-/ Stable (Assigned)
	Term Loan	Long Term	3.50	ACUITE BBB-/ Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00*	ACUITE BBB-/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.73	ACUITE BBB- (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB-/ Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Reaffirmed)

*Cash Credit includes sublimit of ODBD to the extent of Rs.9.00 crore and Bills of Exchange (BE) to the extent of Rs.3.00 crore.

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About Acuité Ratings & Research:

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