Scinor signs up fresh capital to boost growth

The Chinese low-pressure membrane manufacturer has taken on $13 million of funding to exploit new markets. Does the quality of its products match the pedigree of its management?

Selected venture/growth capital investments in China's water sector

Year	Company	Line of business	Investor/s
2013	Mobius Water (Scinor)	EPC + membrane modules	CLSA/Kleiner Perkins
2012	Fresh Water Group Ltd.	POU water purification	Goldman Sachs
2012	GSE Investment Corp.	Treatment plant O&M	Hudson Clean Energy
2011	Jiangsu Xinghe Valve	Valve manufacturer	Baird Capital/IGC Asia
2010	Shanghai Fucheng Env.	Treatment plant O&M	Aureos China Fund
2010	United Water Corp.	Water utility owner	Infinity I-China/Blue Ridge
2010	Wuhan STDS Env.	Wastewater treatment tech	First Eastern Inv. Group
2010	Mobius Water (Scinor)	EPC + membrane modules	Kleiner Perkins
2009	Guangxi Bossco Env.	An-/aerobic WW treatment	Fortune Venture Capital

Source: GWI

Last month's announcement of a $13 million follow-on funding round for Chinese membrane manufacturer and systems integrator Scinor Water is an example of that rarest of phenomena – international growth capital investment in the Chinese water sector.

Although companies such as Dow Chemical, ITT, Pentair and Siemens have bought into the Chinese water treatment market through full-scale acquisitions, deal flow on the growth capital side remains frustratingly light, with only a handful of deals signed in the last few years (*see table*).

The latest Scinor financing, which follows an initial $20 million investment by Kleiner Perkins in 2010, was led by CLSA's Clean Resources Asia Growth Fund, which contributed $10 million, and Kleiner Perkins, which injected a further $3 million into the company. The funds will go mostly towards R&D and process development, and to exploit new markets for Scinor's low-pressure membrane business, including zero liquid discharge applications.

"This is our third water deal, and it fits very nicely with our other two water companies," explained Peter Kennedy, managing director at Singapore-based CLSA Capital Partners. "We have a stake in Earth Water Group in India, so we can add value very quickly by pushing the product into the Indian market. It also fits nicely with our Aqualyng investment, where Scinor could be both an EPC provider and a membrane provider to some of the big Chinese desal projects."

Scinor's founder and chairman Wu Hongmei is a veteran of the Chinese membrane industry. Having established the first company in China to manufacture UF membranes in the late 1990s , she developed another company in the US , and then returned to China in 2003, when she set up Beijing CNC Technology to manufacture RO membranes. At the end of 2005, she sold CNC to Siemens, which was looking to expand its own water business in China. Wu led Siemens' Chinese water business for the next three years, leaving in 2008 and sitting out her non-compete period before setting up Scinor in 2010.

"We have two separate business channels – membrane manufacturing and EPC," Wu explained to GWI. "In the membrane manufacturing segment, our customers are large EPC companies. On the EPC side, we concentrate only on membrane technology EPC and process management, and we use our process expertise to compete directly with international companies in that market," she said. "This year we will also enter a new business area – operations of membrane systems."

While the majority of Scinor's historical client base has been industrial, the injection of new capital significantly raises the prospects for the company's UF membranes to compete internationally in the municipal and industrial markets – both on quality and on price. "To date they've been selling primarily into China, with some small system sales into India, but we hope to expand that, both through our portfolio companies and other distribution channels," said Kennedy. "The combination of cost and quality are really getting them noticed."

Out of an estimated total of over 250 Chinese membrane companies, CLSA evaluated more than 20 before zeroing in on Scinor, and Kennedy believes that the combination of in-house membrane manufacturing and process integration expertise is what sets Scinor apart from the crowd. "The integration business allows them to get large-scale reference sites for the membranes very quickly via a pull-through strategy," he explained.

Few other Chinese companies are capable of competing at the high end of the membrane manufacturing market, and Scinor's membranes are already proving competitive in terms of key performance metrics against established brands, while offering discounts of up to 40% to the client.

Currently, the bulk of Scinor's revenues come from the systems integration segment, but Wu expects that in two years' time, the three segments – product, process and operations – will contribute equally to the top line. "In 2012, revenues were in the RMB60-70 million [$6.4-8.5 million] range, but this year they will be around RMB200 million [$21.2 million]," Wu revealed. "Last year we won a lot of contracts, and most of the execution will be this year."

She is not interested in extending the group's role to project development, however. "We are a product and process company – not a BOT company," she told GWI.

Wu sees clear potential to develop export markets, both for product sales and systems integration. On the SWRO side, India will be a key market, although she recognises that Scinor's membranes will need to establish a good operating track record with customers in China before the company can target foreign markets on a broad scale. Both in China and in India, Scinor will work with its strategic partners Veolia Sidem and VA Tech Wabag to develop the business.

"China really needs a good water company like Siemens or Veolia, which is respected by its customers, and I want to build a company like that," says Wu. As such, the Chinese government's policy to promote the development of the domestic membrane industry under the 12th Five-Year Plan should provide strong support for Scinor's growth ambitions.

Going forward, CLSA has positioned itself very much as an active, rather than a passive partner. "We are evaluating a couple of smaller bolt-on transactions for our portfolio companies, so I'll think you'll see some activity around that going forward," Kennedy told GWI.