

## Delhi MSW Solutions Limited

September 13, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	191.58 [reduced from 199.51]	<b>CARE BBB+ (SO); Stable [Triple B Plus (Structured Obligation); Outlook: Stable]</b>	Revised from CARE BBB- (SO); Stable [Triple B Minus (Structured Obligation); Outlook: Stable]
<b>Total</b>	<b>191.58 (Rupees One Hundred Ninety One crore and Fifty Eight lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Delhi MSW Solutions Limited (DMSL) take into account the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Ramky Enviro Engineers Limited (REEL; rated 'CARE BBB+; Stable/CARE A3+').

The ratings of Ramky Enviro Engineers Limited (REEL) derives strengths from improved scale of operation with growth in total operating income in FY17 (*refers to the period April 01 to March 31*) coupled with healthy profitability margins and improved and comfortable capital structure. The ratings also factors in strength from experienced promoters with an experience of around three decades, established track record with long-term agreements with clients, diversified and large client base and limited competition being pioneer in the sector of waste management. The ratings are, however, constrained by elongated collection period, high working capital utilization and its exposure to high degree of environmental and regulatory risks associated with hazardous waste management. The ability of the company to maintain the position of market leader and continue to maintain higher profitability margins with increase in scale of operation and successful completion of proposed capex are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Improved operational and financial performance in FY17**

During FY17, REEL has witnessed growth in TOI by 12.33% backed by increase in quantity of waste handled to 520,148 tons in FY17 against 478832 tons in FY16. In line with increase in scale, while the PBILDT level has increased by 14.25%; the PAT has improved by 40.33% in FY17 over FY16. The profitability margin has also remained healthy during FY17 with the PBILDT margin of 30.86% as against 30.34% in FY16; the PAT margin improved to 12.54% in FY17 owing to lower interest expenses owing to repayment of debt and lower utilization of working capital limits.

#### **Improved and comfortable capital structure and debt coverage indicators**

REEL has a comfortable capital structure with debt to equity and overall gearing below unity as on March 31, 2017. The capital structure of the company has improved account of repayment of term loans, unsecured loans from related parties and accretion of higher profits. Further, debt coverage indicators like term debt/GCA and total debt/GCA have also improved in FY17 owing to repayment of debt. Furthermore, interest coverage parameters like PBILDT/interest and PBIT/interest have also improved owing to reduced interest expenses during FY17 over FY16 on account of repayment of debt and lower utilization of working capital limits.

#### **Experienced promoters with established track record of more than two decades in waste management industry**

REEL is Asia's leading provider of comprehensive environment management services. The group has established and long track record in the segment being incorporated in 1994. The group is promoted by Mr. A Ayodhya Rami Reddy who has experience of more than three decades. The company offers services under various categories such as waste management-hazardous, municipal, biomedical and e-waste; recycling-waste water, paper, plastic and integrated waste. In the field of environment and waste management, REEL has pioneered waste management facilities in India. The company also offers renewable energy, consultancy and integrated environment services. The company has ISO 9001, ISO 14001, ISO 17025 and OHSAS certifications.

#### **Established relationship with long term agreements with clients**

As the company has an advantage of first mover in the segment, REEL has established large client base of around 1500 clients with presence in 16 cities for IWM, MSW, BMW, E-waste, etc. The company has concession agreements of 25 to 30 years with state governments and municipal corporations and long term contracts with hospitals and corporates.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

## Key Rating Weaknesses

### ***Elongated collection period***

REEL has stretched collection period as on March 31, 2017 though remained in line with collection days as on March 31, 2016. The company has high collection period due to delay in receivables from government contracts particularly municipal corporations.

### ***High degree of environmental and regulatory risks associated with hazardous waste management***

As the company is into management of waste from varied segments like municipal corporation waste, industrial waste, bio-medical waste, environmental services, waste recycling, energy generation from waste etc.; it has to adhere to various environmental and regulatory procedures failing which would result in hindrance of operations. Hence, the company is exposed to high degree of environmental and regulatory risks.

**Analytical approach:** CARE has analysed REEL's credit profile by considering the consolidated financial statements factoring in financial and operational linkages between the parent and its subsidiaries.

### **Applicable Criteria:**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios - Non-Financial Sector](#)

[Factoring Linkages in Ratings](#)

### **About the Company**

DMSL, incorporated in May 2009, is the subsidiary of Ramky Enviro Engineers Limited (REEL) and is engaged in the business of Municipal Solid Waste Management. REEL is a Hyderabad-based conglomerate and a comprehensive environment management services provider arm of the Ramky group which has over 21 years of presence in the twin cities of Hyderabad/Secunderabad. The project is a PPP (public private partnership) model which started commercial operations since July 20, 2009. REEL holds 51% of shareholding while Mumbai Waste Management Limited (MWML) holds 49% stake in DMSL.

DMSL is mainly involved in door to door collection, segregation, transfer, transportation of municipal waste for select zones in Delhi which started vide concession agreement entered on July 17, 2009 between MCD (Municipal Corporation Delhi) and DMSL for a period of 20 years. The project also involves segregation of waste, mechanical separation of waste, processing of organic materials/ waste, production of RDF (Refused Derived Fuel), etc.

The company is currently setting up a waste to heat recovery 24-MW power plant for power generated from municipal waste management. The project cost is approximately Rs.480 crore out of which Rs.196 crore is funded through term loans and balance is funded by REEL and its subsidiary MWML in the form of Equity/Preference share capital and Compulsory Cumulative Debentures. The company has incurred about Rs.470 crore towards the project till December 1, 2016. The project is under trial run stage and the same is expected to start commercial operations from January 1, 2017. The Power Purchase Agreement is proposed to be tied up with DISCOMs in Delhi.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	96.68	108.77
PBILDT	32.37	43.80
PAT	5.08	11.04
Overall gearing (times)	1.84	1.57
Interest coverage (times)	6.12	3.81

### **About the Guarantor (Ramky Enviro Engineers Limited)**

Ramky Enviro Engineers Limited (REEL) was set up as a public limited (unlisted) company in the year 1994. The company is one of the leading comprehensive environment management service providers with presence in India, UAE, Singapore and Gabon, West Africa. In India, the company has its operations in 55 locations spread across 17 states and Union Territories. REEL belongs to RAMKY group which has over 34 years of presence in the twin cities of Hyderabad/Secunderabad, Telangana.

The group is promoted by Mr. A Ayodhya Rami Reddy, who is a civil engineer and has experience of more than 3 decades in the construction sector. The group has a presence in varied sectors including environment management, waste and water management, transportation, industrial infrastructure, commercial, residential, social, and institutional and irrigation infrastructure, energy generation, transmission and distribution, etc.

The group has executed projects on Engineering, Procurement, Construction (EPC), Build, Operate, Transfer BOT and Build, Own, Operate, Transfer (BOOT) basis, while handling more than 80 public private partnership (PPP) projects in the country which is one of the largest number of projects handled by a group for developing infrastructure in the country. The group has presence across India with more than 500 projects locations across 23 states and internationally has presence in USA, Singapore, Saudi Arabia, UAE, Vietnam, China, West Africa and Peru.

In the field of environment and waste management the group has pioneered bio-medical waste and hazardous waste management facilities in India. The group is a market leader with majority market share in solid waste management (SWM)

with around 60 projects on ground/under setup including medical waste management, hazardous waste management and municipal waste management.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1443.95	1622.02
PBILDT	438.15	500.59
PAT	144.96	203.42
Overall gearing (times)	0.98	0.72
Interest coverage (times)	3.48	5.19

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2018	186.58	CARE BBB+ (SO); Stable
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BBB+ (SO); Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	186.58	CARE BBB+ (SO); Stable	1)CARE BBB- (SO); Stable (10-Apr-17)	1)CARE BBB- (SO) (22-Dec-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+ (SO); Stable	1)CARE BBB- (SO); Stable (10-Apr-17)	1)CARE BBB- (SO) (22-Dec-16)	-	-

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