Indigo Sea Ways Private Limited

April 07, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank Facilities	57.05 (Reduced from 67.81)	CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Short Term Bank Facilities	1.30 (Reduced from 1.70)	CARE A1 (CE) [A One (Credit Enhancement)]	Reaffirmed
Total Facilities@	**58.35 (Rs. Fifty-Eight Crore and Thirty-Five Lakhs Only)**		

Details of facilities in Annexure - 1
Details of instruments/facilities in Annexure-1
@backed by an unconditional & irrevocable corporate guarantee extended by Saurashtra Enviro Projects Private Limited (SEPPL; rated CARE A; Stable/ CARE A1)

Unsupported Rating [2]	CARE BB / CARE A4 (Double B/ A Four) [Reaffirmed]

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The ratings assigned to the bank facilities of Indigo Sea Ways Private Limited (ISPL) is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by Saurashtra Enviro Projects Private Limited (SEPPL; rated CARE A; Stable/ CARE A1).

Detailed Rationale & Key Rating Drivers of SEPPL

The ratings assigned to the bank facilities of SEPPL continue to derive strength from extensive experience of the promoters in waste management business, diversified clientele in the hazardous waste (HW) management segment, good revenue visibility on back of healthy order book of municipal & industrial waste (MIW) management segment with low counterparty credit risk & regulatory risk and favourable growth prospects with growing industrialisation and increasing thrust of the government on waste management. The ratings, further, derive strength from SEPPL's healthy financial risk profile backed by comfortable capital structure & debt coverage indicators, healthy operating profitability and strong liquidity.

The ratings also take into consideration partial receipt of receivables from Veolia India Private Limited (VIPL) towards 70% stake sale in Detox India Private Limited (DIPL) and Safe Enviro Private Limited (Safe) during FY21 (refers to the period April 1 to March 31) with balance is envisaged to receive in FY22. CARE also notes that SEPPL has not availed moratorium granted by its lenders as a COVID-19 relief measure (as permitted by the Reserve Bank of India) which underscores its strong liquidity.

The above rating strengths are partially offset by SEPPL's modest scale of operations, working capital intensive nature of operations, inherent execution challenges associated with timely execution of orders in hand, increase in exposure to group entities, susceptibility of its profitability to volatile input prices in the absence of price escalation clause in orders in hand and high regulatory risk in HW management business.

Key Rating Drivers of ISPL

The ratings assigned to the bank facilities of ISPL is constrained on account of non-stabilisation of operations firstly due to siltation issue at Dahej port from September 24, 2019 to February 23, 2020 which resulted in change in route from earlier Dahej-Ghogha to now Hazira-Ghogha. Secondly, due to COVID-19 and construction of terminal at Hazira port from April 2020 to October 2020. This suspension of operations has resulted in operational losses and poor liquidity. The ratings are also constrained on account of leveraged capital structure, weak debt coverage indicators and inherent traffic risk associated with the project.

The ratings, however, continue to derive strength from its experienced & resourceful promoter group, timely financial support from promoters for meeting operational as well as financial obligations of ISPL, presence of funded debt service reserve account amounting to Rs.8.26 crore and perceived benefits from the Ro-Ro ferry.

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[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

CARE also takes cognizance that ISPL has not availed moratorium granted by its lenders as a COVID-19 relief measure (as permitted by the Reserve Bank of India)

Rating Sensitivities (SEPPL)
Positive Factors

- Increase in income of MIW segment through timely execution of orders to more than Rs.250 crore, while maintaining healthy profitability

Negative Factors

- Delay in execution of orders on hand resulting in income from MIW segment below Rs.100 crore
- Deterioration in its liquidity profile marked by free cash and bank balance (including investments) below Rs.50 crore.

Detailed description of the key rating drivers of the guarantor: SEPPL
Key Rating Strengths
Experienced promoters: SEPPL is promoted by Mr. Chetan Contractor, who is a mechanical engineer and has over two decades of experience in waste management sector. He is ably supported by his son, Mr. Varoon Contractor in day-to-day operations of the company. Vast experience of the promoters in waste management segment has helped the Detox Group to increase its scale of operations in HW segment and successfully diversify across states in Western India through award of MIW remediation & processing projects. The promoters are assisted by well-qualified personnel with an experience of over a decade in their specialized areas.

Established track record of operations & diversified clientele base: SEPPL has an established operational track record of more than fifteen years in the processing of HW and is one of the largest waste processors in Gujarat. Post transfer of a part of HW business, SEPPL owns and operates an incineration facility for processing of HW, wherein it has an oligopolistic advantage owing to established relations with major manufacturing units located in Ankleshwar, Vapi, Central and North Gujarat. As on December 31, 2020, SEPPL had a healthy membership base of around 2100 entities. Further, SEPPL continues to have diversified clientele with top five clients contributing 23% of total operating income (TOI) from HW segment during FY20.

Healthy order book with low counterparty credit risk: SEPPL has a healthy order book under MIW segment, comprising of one-time engineering, procurement and construction (EPC) projects as well as long term projects for operation & maintenance (O&M) of waste disposal facility. The company has ventured into the MIW management segment in FY17 and as on December 31, 2020, SEPPL had an EPC order book of Rs.270 crore. The EPC order book includes an order of waste water processing in Jamnagar, which will be executed on PPP basis through a special purpose vehicle (SPV) in partnership with Gujarat Water Supply & Sewerage Board (GWSSB). Further, SEPPL has healthy O&M orders which is to be executed for a period of 3-15 years. Furthermore, all the orders are from government entities translating into low counterparty credit risk.

Comfortable capital structure & debt coverage indicators: SEPPL has comfortable capital structure with a strong net worth base & low debt level. SEPPL does not have any long-term debt (except vehicle loans) & working capital requirements are met through availing overdraft against fixed deposits till March 31, 2020. SEPPL availed cash credit limit of Rs.20 crore in February 2020; it started utilising the limit from August 2020 on need basis. As on March 31, 2020, SEPPL's overall gearing stood low at 0.03x (0.03x as on March 31, 2019). Adjusted overall gearing (after reducing investment in ISPL and factoring guaranteed debt) remained comfortable at 0.38x times as on March 31, 2020.
Further, debt coverage metrics of the company in FY20 stood healthy as indicated by Total debt/ PBILDT of 0.40x (FY19: 0.39x) and interest coverage of 27.37x (FY19: 24.37x).

Healthy operating profitability: SEPPL's PBILDT margin continues to remain healthy and improved further by 294 bps y-o-y to 34.81% during FY20 (FY19: 31.87%) due to increase in incineration fees per MT by around 21%, increase in income from MIW segment and reduction in employee cost. Further, in line with improvement in PBILDT margin, SEPPL's PAT margin also improved during FY20 (excluding extra ordinary income as well as expenditure) to 25.55%. During FY20, SEPPL reported gross cash accruals of Rs.35.41 crore.

Favourable growth prospects with growing industrialisation and increasing thrust of government on waste management: An increase in purchasing power parity has led to more affordability, accessibility to resource use and a rapid surge in the waste volumes as well. Considering the current trend towards urbanization in India, the MIW quantum is envisaged to double the existing volumes in next ten years. Further, with growth in industrialization, the quantum of HW generated by industries in different sectors, which is required to be disposed-off after appropriate treatment, is also envisaged to grow. Furthermore, the government thrust on hygiene and cleanliness along with growing social awareness towards a clean and green environment, waste management activities have gained impetus which augurs well for players in the waste management industry.

Key Rating Weaknesses

Modest scale of operation: SEPPL derives revenue from two segments HW & MIW segment and during FY20, SEPPL's TOI remained stable at Rs.110 crore (FY19: Rs.118 crore). Income from HW segment declined due to transfer of HW segment (except incineration facility) to DIPL resulting in only incineration income during FY20. Income from MIW segment grew by 30% y-o-y during FY20 owing to increase in projects under execution.
Further, SEPPL's operations had not impacted much owing to COVID-19 as the services provided by the company falls under the 'Essential Category' services. However, the payments from the principal authorities for the work done got delayed during that period. During 9MFY21 (Provisional; refers to the period April 1 to December 31), SEPPL reported TOI of Rs.78 crore (9MFY20: Rs.75 crore).

Execution challenges in processing MIW orders: During FY21, two projects aggregating to around Rs.41 crore has been terminated as the municipal corporation was not able to give requisite clearances for remediation of existing dumping site. Furthermore, SEPPL has not yet received Right of Way (RoW) for 26 kms pipeline from GWSSB till March 01, 2021. It is expected to be received by June 2021. Project shall start after receipt of approvals. Consequently, execution of orders in hand within envisaged cost and timelines remain crucial from the credit perspective.

Working capital intensive nature of operations: The working capital intensity is inherent in SEPPL's business especially in MIW management segment owing to elongated receivables from the municipal corporations. SEPPL's average collection period remained high at 71 days (FY19: 65 days). However, due to high credit period availed from its creditors, its working capital cycle remained negative during FY20. Further, the percentage of net working capital to operating capital employed, albeit reduced, remained high at 70% in FY20 (FY19: 81%). Furthermore, during 9MFY21, the working capital intensity increased owing to delayed payment from government authorities in MIW segment.

Increase in exposure to group entities: SEPPL's exposure to various group companies in the form of an equity investment, interest free advances have increased to Rs.128 crore as on March 31, 2020, which is around 28% of the net-worth of SEPPL as on March 31, 2020 (FY19 end: 22%). Further, the major portion (around 62%) of the investment of SEPPL as on March 31, 2020 is in its loss-making subsidiary; ISPL. ISPL is an SPV formed to operate a Ro-Ro ferry project between Dahej (now Hazira) and Ghogha, connecting the Saurashtra region with South Gujarat. The operations under ISPL had not stabilized and the company incurred operating losses due to suspension of operations owing to siltation issue faced by the company at Dahej port during FY20 (October 2019 to January 2020), resulting in change in route to Hazira-Ghogha. Further, ISPL's operations were again suspended during April- October 2020 owing to COVID-19 & construction of terminal at Hazira resulting in operational loss and requiring support from parent company to meet its operating cost & debt repayment obligations. However, as ISPL has resumed its operations on new route from November 2020, support from SEPPL is envisaged to reduce.
SEPPL holds 30% stake in Safe and DIPL and has extended corporate guarantee of Rs.63 crore to the extent of its shareholding in the entities.

Susceptibility of its profitability to volatile input prices: Considering EPC contracts in MIW segment are fixed price in nature with limited price revision and is generally executed with a time lag, SEPPL's profitability remains susceptible to fluctuations in input prices.

Presence in highly regulated industry: SEPPL's HW processing facilities are governed by Hazardous Waste (Management, Handling and Trans-boundary Movement) Rules, 2008. Further, SEPPL has to ensure strict compliance with all the norms and provisions published by Pollution Control Boards of the respective state for the processing of MIW. Non-compliance with the rules and regulations may lead to cancellation of license, temporary suspension of the operations as well as closure of the plant facilities. However, with company diversifying its revenue stream with inclusion of MIW which entails lower regulatory compliances and risks as compared to HW segment. Hence, it reduced the company's vulnerability to any adverse regulatory change in the otherwise stringently regulated HW segment.

Liquidity: Strong

SEPPL's liquidity is marked by healthy accruals of around Rs.36-47 crore which is sufficient enough to meet incremental working capital requirements/ fund capex/ investment in ISPL, healthy free cash and bank balance (including liquid mutual fund investment) of around Rs.153 crore as on March 31, 2020 and negative working capital cycle. With a gearing of 0.03x as on March 31, 2020, SEPPL has sufficient gearing headroom to raise additional debt for capex.
Further, overall liquidity of SEPPL has improved as on February 28, 2021 on account of income from sale of investment and partial receipt of receivables amounting to Rs.55 crore from VIPL out of total receivables of Rs.131 crore towards stake sale in DIPL and Safe. The balance is envisaged to be received in FY22. The current ratio and quick ratio improved to 4.32x (FY19: 2.56x) and 4.16x (FY19: 2.46x) respectively as on March 31, 2020 primarily due to pending receivables from VIPL. Moreover, SEPPL started utilising fund-based working capital limits from August 2020 and its average month-end utilisation remained

moderate at 66% during trailing seven months ended February 2021. Furthermore, average utilisation of its non-fund based working capital limit remained in the range of 50%.

Analytical approach:
Credit Enhancement (CE) Rating: Assessment of Guarantor, SEPPL

Unsupported Rating: Standalone

Analytical Approach for SEPPL: Standalone; however, factoring in corporate guarantee and support extended to ISPL, DIPL and Safe.

Applicable Criteria (SEPPL & ISPL)
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Notching by factoring linkages in Ratings
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Construction Sector
Rating Methodology - Service Sector Companies
Criteria for Rating Credit Enhanced Debt

About the Company: SEPPL
Incorporated in February 2006, Surat-based SEPPL (erstwhile known as Vams Biofuel Farm Private Limited) is promoted by Detox group of Surat. Detox group is mainly engaged in providing waste management services.
SEPPL had set up an Integrated Common Hazardous Waste Management Facility (ICHWMF) for Treatment, Stabilization and Disposal of Hazardous Waste and non-hazardous industrial waste generated from diverse industries. SEPPL's Treatment, Stabilisation Disposal Facility (TSDF) is approved by Gujarat Pollution Control Board (GPCB), Ministry of Environment & Forest (MoEF) and Central Pollution control Board (CPCB). SEPPL is ventured in MIW management segment in FY17 and is engaged in processing of MIW & remediation of dumping sites on EPC basis along with its O&M.
Post-sale of a majority stake in HW management segment to DIPL (erstwhile known as Ankleshwar Cleaner Process Technology Center Private Limited), SEPPL is now focusing on EPC and O&M projects of MIW and waste water treatment.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	118.10	110.40
PBILDT	37.64^	38.43
PAT	152.86*	28.20
Overall Gearing	0.03	0.03
PBILDT Interest coverage (times)	24.37	27.37

A: Audited
^excluding incremental one-time directors' remuneration.
**includes profit from slump sale of HW facilities to DIPL and subsequent sale of majority stake (70%) in DIPL and Safe to VIPL*

About the company: ISPL
ISPL is a SPV formed to undertake Ro-Pax ferry service project of Gujarat Maritime Board (GMB) across Gulf of Cambay between Dahej & Ghogha in the state of Gujarat, India. The SPV was formed by consortium of SEPPL as lead & financial partner, Star Ferries India Private Limited as support partner and Black Ball Transport Inc. as technical partner. ISPL started its Ro-Ro ferry operations through its vessel 'Voyage Symphony' from October 2018. However, due to heavy siltation issue faced by the company at Dahej port, the route has been changed to now Hazira to Ghogha. After suspension of operations owing to siltation issue, COVID-19 and construction of terminal at Hazira, ISPL has resumed its operations from November 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	10.44	11.77
PBILDT	(7.41)	(11.54)
PAT	(15.02)	(26.92)
Overall Gearing	5.35	-ve
PBILDT Interest coverage (times)	-ve	-ve

A: Audited; -ve: Negative

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Please refer Annexure-3

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	-	-	January 2025	57.05	CARE A (CE); Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	1.30	CARE A1 (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BB / CARE A4

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	57.05	CARE A (CE); Stable	1)CARE A (CE); Stable (07-Apr-20)	-	1)CARE A (SO); Stable (15-Feb-19) 2)CARE A (SO) (CWD); Stable (29-Nov-18) 3)CARE A (SO); Stable (23-Apr-18)	1)Provisional CARE A (SO); Stable (18-Dec-17)
2.	Non-fund-based - ST-Credit Exposure Limit	ST	1.30	CARE A1 (CE)	1)CARE A1 (CE) (07-Apr-20)	-	1)CARE A1 (SO) (15-Feb-19) 2)CARE A1 (SO) (CWD) (29-Nov-18) 3)CARE A1 (SO) (23-Apr-18)	-
3.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BB / CARE A4	1)CARE BB / CARE A4 (07-Apr-20)	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Non-fund-based - ST-Credit Exposure Limit	Simple
3.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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