Indigo Sea Ways Private Limited (Revised)

January 09, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	78.34 (Reduced from 95.26)	CARE A (CE)^; Stable [Single A (Credit Enhancement); Outlook: Stable]	Reaffirmed
Short Term Bank Facilities	3.00	CARE A1 (CE)^ [A One (Credit Enhancement)]	Reaffirmed
Total Bank Facilities	**81.34 (₹ Eighty-One Crore and Thirty-Four Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

^ backed by credit enhancement (CE) in the form of an unconditional and irrevocable corporate guarantee (CG) extended by Saurashtra Enviro Projects Private Limited (SEPPL, rated 'CARE A; Stable/ CARE A1')

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

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

Detailed rationale and key rating drivers for the credit enhanced debt

The reaffirmation of the ratings assigned to the bank facilities of Indigo Sea Ways Private Limited (ISWPL) is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by SEPPL.

Detailed rationale and key rating drivers of SEPPL (CE Provider)

The ratings assigned to the bank facilities of Saurashtra Enviro Projects Private Limited (SEPPL) continue to derive strength from the experience of promoters in waste management business, the company's established track record of operations in the hazardous waste (HW) management and a reputed and diversified client base. The ratings further derive comfort from the growth in SEPPL's scale of operations during the past three years ended FY22 (FY refers to the period April 01 to March 31), its comfortable financial risk profile, strong liquidity, and favourable growth prospects of the industry with growing industrialisation and increasing thrust of the government on waste management.

The rating continues to be constrained on account of working capital-intensive nature of operations, inherent project execution challenges associated with timely execution of orders in hand, susceptibility of its profitability to volatile input prices and high regulatory risk in HW management business.

The ratings also takes cognizance of significant increase in advances to its subsidiary in the transportation business for meeting operational and debt repayment obligations and moderate order book for engineering, procurement, and construction (EPC) segment.

Key rating drivers of ISWPL

The ratings assigned to the bank facilities of ISWPL continue to remain constrained on account of the company's deteriorated credit risk profile, poor liquidity position, leveraged capital structure, weak debt coverage indicators and an inherent traffic risk associated with the project. However, CARE Ratings Ltd. takes into account improvement in the operations of ISWPL market by improvement in total operating income to Rs. 21.90 crore in FY22 (PY: 12.29 crore) on account of operations of RoRo ferry 'Voyage Symphony' on the new route (Hazira–Gogha) except during August and September 2021 due to maintenance and repairs. Furthermore, the company has also commenced the operation of its new RoRo ferry ('Voyage Express') from September 2022. As per provisional 8MFY23, the company has reported revenue of Rs. 25.05 crore.

The ratings, however, derive strength from the company's experienced promoter group and timely financial support from the promoter group for meeting its operational as well as financial obligations. The ratings further derive comfort from the presence of debt service reserve account (DSRA) towards the debt repayment obligations for both the term loan maintained by SEPPL in the form of FDs.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Rating sensitivities of SEPPL

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in the total operating income (TOI) to more than Rs.250 crore, while maintaining healthy PBILDT margins of over 25% on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Delay in execution of orders in hand resulting in total operating income below Rs.130 crore.
- Deterioration in its liquidity profile marked by free cash and bank balance (including investments in mutual funds) to below Rs.50 crore.

Detailed description of the key rating drivers of SEPPL

Key Rating Strengths

Experienced promoters

The promoters of SEPPL have an experience of more than two decades in the environmental and waste management industry through various group companies. Mr Chetan Contractor, group promoter and chairman, is a mechanical engineer and has an experience of over two decades in developing new techniques for waste minimization, recovery, reuse and disposal. He is ably supported by his son, Mr Varoon Contractor in the day-to-day operations of the company. Vast experience of the promoters in waste management segment has helped Detox Group to increase its scale of operations in the HW segment and successfully expand its presence in Western India through award of Municipal Sewage Waste (MSW) remediation and processing projects. The promoters are assisted by professionals with an experience of over a decade in their specialized areas.

Established track record of operations in HW management and reputed and diversified client 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. SEPPL currently owns and operates an incineration facility at Kutch for processing of HW generated by manufacturing and processing units in Gujarat, wherein, it has an advantage owing to established relations with major manufacturing units located in Ankleshwar, Vapi, Central and North Gujarat. As on November 30, 2022, SEPPL had a healthy membership base of around 2,050 entities. The revenue stream of the company is diversified with HW incineration segment contributing around 30%-40% of the TOI of the company and balance from other sources including processing, EPC and O&M work for MSW. Furthermore, the customer base of the company is highly reputed with the top 5 clients for HW incineration contributing to around 28% (PY: 30%) of the revenue from HW incineration segment during FY22.

Growth in scale of operations

During FY22, SEPPL's TOI grew by ~28% to Rs. 166.95 crore (PY: Rs.130.70 crore) primarily on account of increase in income from EPC segment. The revenue composition stands at 32% income from MSW segment, 31% from incineration segment, 28% from EPC segment and the balance 9% by other operating income (PY: 34%, 19%, 39% and 8% respectively).

Change in segment-wise contribution in TOI along with increase in manufacturing overheads composition has resulted in reduction in PBILDT and PAT margin to 20.37% (PY: 24.55%) and 18.59% (PY:24.07%) respectively in FY22. Gross cash accruals remained largely stable at Rs.32.24 crore (PY: Rs. 35.88 crore). CARE Ratings expect the revenue share from the EPC segment to increase in the near to medium term on account of bids placed by SEPPL for EPC contracts in the waste remediation segment. The ability of the company to maintain its profitability while diversifying its revenue stream would be critical from a credit perspective.

As per provisional financials of 8MFY23, SEPPL reported a TOI and PBILDT of Rs.94.57 crore of Rs. 17.72 crore.

Comfortable financial risk profile: The capital structure of the company remained comfortable as on March 31, 2022, with negligible term debt (vehicle loans) which stood at Rs.1.10 crore and working capital requirements being met through utilisation of overdraft facility availed against liquid investments (FDs and MFs). The overall gearing of the company stood comfortable at 0.10x as on March 31, 2022 (PY: 0.04x), while the overall gearing adjusted for debt where corporate guarantee (CG) is furnished stood comfortable at 0.35x as on March 31, 2022 (PY: 0.26x). Debt coverage indicators of the company stood healthy with Term debt/ PBILDT of 0.03x as on March 31, 2022 (PY: 0.05x) and an interest coverage of 8.02x as on March 31, 2022 (PY: 12.62x).

Favourable growth prospects with growing industrialisation and increasing thrust of government on waste management: Increase in purchasing power parity has led to more affordability, accessibility to resources and a rapid surge in the waste volumes as well. Considering the current trend towards urbanization in India, the MSW quantum is envisaged to double the existing volumes in next 10 years. Furthermore, with growth in industrialization, CARE Ratings expects an increase in the quantum of HW generated by industries in different sectors, which is required to be disposed-off after appropriate treatment. 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

Moderate order book for EPC and O&M work for MSW:

SEPPL has a moderate order book under MSW segment, comprising of EPC projects as well as long term operations and maintenance (O&M) contracts of effluent treatment plants (ETPs) and waste disposal facilities. As on November 30, 2022, SEPPL had an EPC order book of Rs.149.22 (PY: Rs.220 crore) to be executed in next 12-15 months. Furthermore, the company has healthy O&M orders which provide revenue visibility for the next 3-10 years with built-in annual escalation clauses of 5%-10%. Besides, all the orders are from government entities translating into low counterparty credit risk.

However, during FY22, the project from Gujarat Water Supply & Sewarage Board (GWSSB) aggregating to Rs.150 crore has been terminated on account of non-receipt of Right of Way (RoW) for 26 kms pipeline for the said project. Further, considering orders in the MSW segment have limited price revision flexibility and that too with a time lag, SEPPL's profitability remains susceptible to fluctuations in input prices.

Working capital intensive nature of operations: SEPPL's The working capital intensity is inherent in SEPPL's business especially in MSW management segment owing to elongated receivables from the municipal corporations. SEPPL's average collection period remained high at 101 days during FY22 (PY: 97 days). However, the company also avails high credit period from its creditors which helps the company in managing its day-today operations.

Increased exposure in group companies: SEPPL's exposure in group companies in the form of equity, interest free advances increased to Rs. 197.22 crore (PY: Rs.145.71 crore) as on March 31, 2022, which is around 35% of SEPPL's tangible net-worth (PY: 28%). SEPPL holds 30% equity each in Detox India Private Limited (DIPL) and Safe Enviro Private Limited (Safe) (balance held by Veolia India Pvt Ltd, 'Veolia') and 91.90% (PY:86.69%) in Indigo Sea Ways Private Limited (ISWPL, rated 'CARE A (CE); Stable/ CARE A1 (CE)').

Major exposure of SEPPL is in ISWPL, loss making RoRo ferry business, in the form of equity of Rs.50.19 crore (PY: Rs.28.83 crore) and interest free unsecured loans of Rs.98.93 crore (PY: Rs.68.17 crore) as on March 31, 2022. SEPPL has infused unsecured loan to the of Rs.75.00 crore in ISWPL (subordinated to bank debt) in FY22 for the purchase of a new RoRo ferry (Voyage Express) and supporting the operations of the company. Further. SEPPL also supports the company by maintaining debt service reserve account (DSRA) for the term loans availed by ISWPL, in the form of FDs.

ISWPL's scale of operations improved in FY22, reporting total operating income of Rs. 21.90 crore (PY: 12.29 crore), however, the operating losses increased to Rs.7.69 crore in FY22 (PY: Rs.3.22 crore) on account of higher operating cost and periodic maintenance cost of its operational RoRo ferry (Voyage Symphony). Thus, ISWPL requires support from SEPPL for meeting its operational requirements as well as debt servicing. Stabilisation and scaling up of ISWPL's operations and the extent of support required going forward remains a key rating monitorable. SEPPL has also extended corporate guarantees to DIPL and Safe, to the extent of its shareholding in the entities, covering debt to the extent of Rs.63 crore.

Presence in a highly regulated HW industry: SEPPL's HW processing facilities are governed by Hazardous Waste (Management, Handling and Trans-boundary Movement) Rules, 2008. Furthermore, SEPPL must ensure strict compliance with all the norms and provisions published by Pollution Control Boards of the respective state for the processing of HW. 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 MSW 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)**

The liquidity position of SEPPL is marked by healthy cash accruals and free cash and bank balance (FDs, and investments in mutual funds) of Rs. 109.00 crore along with investment in listed equity & bonds of Rs. 123.91 crore as on November 30, 022 against negligible long-term debt repayment obligations which is sufficient to meet incremental working capital requirements/ fund capex/ investment in ISPL.

The average maximum utilisation of CC limits for the 12-month period ended November 30, 2022, stood at a high ~96% and the company also utilized overdraft against FDs and MFs for its working capital requirements.

Liquidity: Poor (ISWPL)
ISWPL has been making operating losses, wherein, the company has been receiving financial support from SEPPL in the form of interest free unsecured loans which stood at Rs.98.93 crore as on March 31, 2022 (Rs.68.17 crore as on March 31, 2021). The company had cash and bank balances of Rs.3.64 crore as on March 31, 2022.

Analytical Approach: Credit enhanced ratings: The ratings of the bank facilities of ISWPL are based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by SEPPL. SEPPL has been assessed on a standalone basis while factoring in corporate guarantees and financial support extended to ISWPL, DIPL and SAFE.

Unsupported ratings: Standalone.

Applicable criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Infrastructure Sector Ratings
Urban Infrastructure Projects
Policy on Withdrawal of Ratings
Rating Credit Enhanced Debt

About the company
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 (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	November 30, 2022 (Prov)
Total operating income	130.70	166.95	94.57
PBILDT	32.08	34.01	17.72
PAT	31.46	31.04	14.48
Overall gearing (times)	0.04	0.10	0.14
Interest coverage (times)	12.62	8.02	19.91

A: Audited, Prov: Provisional

About the Company – ISWPL
ISWPL is a special purpose vehicle (SPV) which was formed to undertake RoRo ferry service project of Gujarat Maritime Board (GMB) across the Gulf of Cambay between Dahej and Ghogha in the state of Gujarat, India. The SPV was formed by a consortium of SEPPL as lead and financial partner, Star Ferries India Private Limited as support partner and Black Ball Transport Inc. as the technical partner. ISWPL started RoRo ferry operations through its vessel 'Voyage Symphony' from October 2018. However, due to heavy siltation at Dahej port, the route was changed to Hazira–Ghogha.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	September 30, 2022 (Prov)
Total operating income	12.29	21.90	NA
PBILDT	-3.22	-7.69	NA
PAT	-15.57	-19.54	NA
Overall gearing (times)	NM	1.87	NA
Interest coverage (times)	NM	NM	NA

A: Audited, Prov: Provisional, NM: Not Meaningful, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	June 2029	78.34	CARE A (CE); Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	3.00	CARE A1 (CE)
Un Supported Rating-Un Supported Rating (LT/ST)		-	-	-	0.00	CARE BB / CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	78.34	CARE A (CE); Stable	-	1)CARE A (CE); Stable (14-Feb-22) 2)CARE A (CE); Stable (07-Apr-21)	1)CARE A (CE); Stable (07-Apr-20)	-
2	Non-fund-based - ST-Credit Exposure Limit	ST	3.00	CARE A1 (CE)	-	1)CARE A1 (CE) (14-Feb-22) 2)CARE A1 (CE) (07-Apr-21)	1)CARE A1 (CE) (07-Apr-20)	-
3	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	0.00	CARE BB / CARE A4	-	1)CARE BB / CARE A4 (14-Feb-22) 2)CARE BB / CARE A4 (07-Apr-21)	1)CARE BB / CARE A4 (07-Apr-20)	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of 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

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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