Antony Waste Handling Cell Limited

February 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	27.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	33.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**60.50 (Rs. Sixty Crore and Fifty Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the long term and short term ratings of bank facilities of Antony Waste Handling Cell Limited (AWHCL) factors in the experience of the promoters in the business of waste management and established track record, revenue visibility in the group on account of multi-year concession agreements entered into with various municipal corporations across India, diversified revenue streams from various business segments, healthy operating margins and stable outlook for the business on account of increasing population and consumption leading to higher generation of municipal solid waste. The ratings also factor in the successful IPO issue of Rs.300 crore undertaken in January 2021 resulting in fresh fund raising of Rs.85 crore to be utilized for debt reduction at consolidated level of the group and financing of WTE energy project in its subsidiary company.

The rating strengths however are tempered by the small scale of current operations of the group, stretched receivables from waste C&T (collection & transportation) segment due to delay in recovery from municipal authorities and ongoing litigations, changes in Government rules and regulations which may affect the operations of the company. The ratings are further constrained by project execution risk which arises due to the ongoing WTE (Waste to Energy) project in Pimpri with total cost of Rs.246 crore constituting significant portion of net-worth at consolidated level which is expected to be commissioned by June 2022.

CARE would continue to closely monitor the progress of the execution of WTE project in timely manner within the envisaged cost and any delay or deviation in the same would be key credit rating monitorable.

Rating Sensitivities

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

- Successful execution of the WTE project without any cost or time overruns and generation of adequate incremental revenue from the project as envisaged
- Improvement in overall gearing below 0.7 times (on consolidated level) on sustained basis

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

- Any significant debt funded capex undertaken by the company resulting in Overall Gearing of more than 1.2x in the medium term (on consolidated level)
- Any further stretch in the collection period resulting in lower cash accruals and weak debt protection metrics with Average DSCR below 1.5x times

Detailed description of the key rating drivers

Experience of the promoter companies in the business of waste management

Antony Waste Handling Cell Limited (AWHCL), promoted by Mr.Jose Jacob, Mr. Shiju Jacob, and Mr.Shiju Antony is one of the leading players in the field of Solid Waste Management services in the country. Promoters have vast experience in waste management industry. The group has established track record for undertaking waste management services for more than 2 decades. The activities carried out by the group include Collection and transportation (C&T) of MSW, Mechanized Primary collection of MSW, Mechanized Road sweeping, Waste Processing, Engineering Sanitary Landfills, trading of Compactors, Dumpers etc. for carrying MSW etc.

Revenue visibility on account of multi-year concession agreements from various business segments
AWHCL through its subsidiaries has entered into multi-year concession agreement with various Municipal bodies across India. Once the concession agreement ends, the company re-bids for the project; and the contract is awarded by the municipalities if the company meets bidding criteria, performance evaluation of previous contracts etc. C&T projects are generally awarded for a period of 7-10 years, while waste processing contracts has a concession period of over 20 years which provides future revenue visibility to tune of ~Rs430 crore to ~Rs.480 crore annually (on consolidated level) over the next 5 years on account of existing contracts won by the company over the past few years. Further the company also has bio-reactor landfills (BLF) and material recovery facility (MRF) facility in Kanjumarg, Mumbai under Antony Lara Enviro Solutions Private Limited (ALESPL) with concession agreement till 2036. Thus the group has revenue visibility under long term contracts with escalation clauses in the tipping fees by various entities. During FY20, there has been significant increase in total consolidated revenue by ~56% mainly since the company takes about 6-18 months after signing letter of award (LOA) to recognize revenue from existing and new contracts won in the previous year.

Diversified revenue streams
Since the group is a complete Waste management solutions provider, it provides a range of services that include, collection and transportation (C&T) of MSW, Mechanized Primary collection of MSW, Mechanized Road sweeping, Waste Processing, Engineering Sanitary Landfills, trading of Compactors, Dumpers etc. for carrying MSW, Bio-reactor landfill facility, etc. having contracts with various municipal bodies across India; The company currently also has a WTE project under subsidiary i.e. Antony Lara Renewable Energy Private Limited (ALREPL) in which it has entered into contract with Pimpri Chinchwad Municipal Corporation with expected commencement of operations from FY23, post which it will add ~R.50-60 crore of incremental revenue to the topline.

Healthy operating margins on account of lower maintenance costs.
Antony Waste group is earning healthy operational margins in in C&T and mechanical sweeping segment, wherein major operational costs are employee costs, power and fuel, Repairs and maintenance of vehicles. It also earns high operational margins in case of waste processing, segregation and bio-reactor landfilling activities. The operating costs of the company primarily comprise of power and fuel cost, employee costs and hire charges. The power cost is also reduced to some extent since the company produces power from 0.95 MW waste-to-energy power plant which is a part of its waste processing unit situated in Kanurmarg, Mumbai and uses the same for captive consumption.

Key Rating Weaknesses
Small scale of current operations
Out of total 205 municipal Corporations (Excluding Municipalities and ULBs) in India, currently the group is catering to 10-12 Municipal Corporations. Hence, the Small scale of operations restricts group’s financial flexibility. The waste processing business under ALESPL involves BLF and MRF facilities with track record of less than 5 years. The processing generally takes about 6-7 years and hence the effectiveness of the scientific processing would be known only after completion of the said period. Thus, overall, the company has small scale of operations.

Exposure to receivables from municipal authorities with track record of delayed payments
Total Debtors outstanding amount at group level stood at Rs.175.96 crore as on September 30, 2020 out of which ~76.8% is due for more than 90 days (excluding retention money of Rs.27.26 crore and loss allowances of Rs.52.40 crore). Around ~85% of total projects make payments on monthly basis and balance on quarterly basis. However, there are some delays observed in recovery of outstanding amount from some of the municipal corporations. The delays are typically caused by various constraints, straitjacketed rules and bureaucratic procedures that the government departments work under including budget squeeze, disputes etc. Company is in discussion with various municipalities to recover the disputed amount through alternate dispute mechanisms including negotiation, conciliation, mediation and arbitration. These are long pending dues whose contracts have already been concluded 5-6 years back. The collection period of the company has improved to 97 days during FY20 from 135 days in FY19 on consolidated basis.

Project risk pertaining to ongoing WTE Project and debt funded capex for contracts
The company is also in the process of setting up WTE (Waste to Energy plant) with capacity of 14MW in Pimpri district for which it has entered into agreement with Pimpri Chinchwad Municipal Corporation (PCMC) for supply of power and MSW collection and transportation. Construction of the project will commence from end of February 2021 and will be completed in a time frame of 15-18 months from financial closure. Plant is scheduled to be commissioned on June 30, 2022. Total cost of the project is 246 crores with debt component of Rs.172 crore. Out of total equity amount of Rs 74 crore, ~40 crore will be funded by Antony Lara (which will be infused in ALREPL by way of unsecured loans by AWHCL) and balance Rs.34 crore from internal accruals of AG Enviro Infra Projects Private Ltd (AGEIPPL). Promoters have

already infused ~Rs.15 crore in the project as on December 31, 2020. Since the WTE project is capital intensive, 50 crores capital grant is expected to be received from the government which would be distributed to promoters and lenders in DER ratio of 70:30. Power will be purchased by PCMC on net metering basis at the rate of Rs.5/unit. Further, the company will also generate revenue through tipping fees at Rs.502/tonne for collection of waste in the project. Since the project is a new venture for the company in this segment with no prior experience along with limited track record and viability of WTE projects in India, the company is exposed to project risk with respect to timely execution of the same within envisaged cost and timelines.
The company majorly relies on debt capital to fund the capital expenditure required. Total debt (on consolidated level) has increased from Rs.132 crore in FY18 to Rs.213 crore in FY20 mainly to fund the purchase of vehicles (i.e. tippers used for collection and transportation of MSW) required to be deployed for catering to new and renewed contracts with municipalities. Out of the Rs.85 crore raised from the IPO, Rs.40 crore will be used for financing of WTE project and Rs.38.5 will be utilized for prepayment of debt. Although, capital expenditure is debt funded, overall gearing which is 1.27 times as on March 31, 2020 is expected to improve in FY21 due to the recent IPO post which it is slated to decline with commercialization of WTE project and is expected to remain below levels of 1.2 to 1.3 times in the next 4-5 years.

Changes in the Government rules and regulations may affect the operations of the company
The company is exposed to changes in the regulatory environment. Any downward revision in the Tipping Fee or C&T fees will impact the revenues of the company. Many Municipalities have been struggling to fund various solid waste management projects from their own revenue receipts. Hence, Municipalities are highly dependent on state/central grants/budget allocation to fund various projects. Any adverse change in government policies or focus, delay in payment, decline in budgetary allocation for MSW may adversely affect company’s business, financial condition, results of operations and prospects; hence the Company is exposed to regulatory, environmental and political risks.

Industry Analysis
Urbanization is a critical factor driving the MSW generation in the country. Changing lifestyle patterns, increasing disposable incomes, have paved way for consumerism and, have also contributed to waste generation in urban India. MSW generation is a 50 billion INR industry which is expected to grow at a CAGR of 8.9% (FY 2020-25) from 75 Million TPA in FY 2020 to reach 125 Million TPA by FY2025. The MSW Management market is estimated at INR 50,000 Million for FY2020 and is expected to reach INR 98,000 Million by FY 2025 at a CAGR of 14.4%. Increasing participation of professional players in collection and transportation services and development of scientific recycling and disposal methods for management of MSW is expected to be key driver for the market. With the revision in regulations by the Ministry of Environment, Forest and Climate Change, source segregation, material recovery, waste treatment, and recycling markets are expected to witness high growth opportunities.

Liquidity: Adequate (AWHCL – Consolidated)
AWHCPL on consolidated basis has Rs.55.35 Crore of free cash and Liquid investments as on December 30, 2020 (Rs.14.48 crore of fixed deposits, Rs.40.81 crore of cash and bank balance). Further, working capital limits have been taken up for AWHCPL only. Average Fund based and non-fund-based facilities of AWHCL were fully utilized for the past 12 months. The company is expected to generate gross cash accruals of ~Rs.120 crore, which is sufficient to cover total debt obligation of Rs.63 Crore in FY21.

Analytical approach: CARE has undertaken consolidated approach wherein financials of Antony Waste Handling Cell Limited (holding company) have been consolidated with subsidiaries since all the companies collectively provide waste management services. For WTE loan facility, ALESPL and AG Enviro have extended corporate guarantee for project finance loan to be availed by ALREPL for WTE project. List of companies consolidated under AWHCL is provided in Annexure 5.

Applicable Criteria
Criteria on assigning rating outlook and credit watch
CARE’s Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Rating Methodology - Infrastructure Sector Ratings
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial Sector Entities

About the Company – Antony Waste Handling Cell Limited

Incorporated in Jan 2001, AWHCL is one of the leading players in the field of Municipal Solid Waste (MSW) management services in India. It is a part of Antony Group having diversified business interests mainly in automotive body building and ancillary industries. The company which has been undertaking waste management services has an established track record of 20 years. The group provides full spectrum of MSW services which include trading of Compactors, Dumpers etc. for carrying MSW, undertaking transportation of MSW to dumping grounds, Mechanized Primary collection of MSW, Mechanized Road sweeping, Waste Processing, Waste disposal and Engineering Sanitary Landfills primarily catering to Indian Municipalities. As on December 30, 2020, the company, along with 7 subsidiaries have undertaken total of ~35 projects of which 18 are ongoing and revenue generating. (12 MSW C&T Projects, 2 MSW Processing projects and 4 Mechanized sweeping projects). The company also has a fleet of 1100+ vehicles for execution of the projects. The company also has a bio-reactor landfill facility in Kanjurmarg, Mumbai.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	296.54	464.16
PBILDT	84.01	135.52
PAT	31.51	47.15
Overall gearing (times)*	1.57	1.27
Interest coverage (times)	3.92	4.94

A: Audited;

**Intangible assets pertaining to the concession agreement has been deducted from tangible net-worth for calculation of Overall Gearing. Further Rs.13.50 crore long pending outstanding receivable dues qualified by auditor have also been deducted from Tangible Net-worth.*

Note: The financials have been reclassified as per CARE standards

Status of non-cooperation with previous CRA:

Any other information: NA

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

Covenants of rated instrument / facility: *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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	27.50	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	33.00	CARE A3

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-Working Capital Limits	LT	27.50	CARE BBB-; Stable	1)CARE BBB-; Stable (23-Jul-20)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (24-Mar-20)	1)CARE BBB; Stable (19-Feb-19)	1)CARE BBB; Stable (30-Mar-18)
2.	Non-fund-based - ST-Bank Guarantees	ST	33.00	CARE A3	1)CARE A3 (23-Jul-20)	1)CARE A4; ISSUER NOT COOPERATING* (24-Mar-20)	1)CARE A3 (19-Feb-19) 2)CARE A3 (22-May-18)	1)CARE A3 (30-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Working Capital Limits	Simple
2.	Non-fund-based - ST-Bank Guarantees	Simple

Annexure-5: List of entities consolidated with Antony Waste Handling Cell Limited (AWHCL) as on March 31, 2020:

Sr no	Name of entity	% effective holding as on 31st March, 2020
1	AG Enviro Infra Projects Private Ltd	100.0%
2	Kl Envitech Private Ltd	100.0%
3	Antony Lara Enviro Solutions Private Ltd	63.0%
4	Antony Infrastructure And Waste Management Services Private Ltd	100.0%
5	Antony Revive E-Waste Private Ltd	100.0%
6	Antony Lara Renewable Energy Private Limited	81.64%

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

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