Antony Waste Handling Cell Limited
(Erstwhile Antony Waste Handling Cell Private Limited

February 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities : Fund based	27.50	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities : Non-fund based	33.00	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**60.50 (Rupees Fifty crore Fifty Lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Antony waste handling solutions limited (AWHCL) factor in the experience of the promoters in the business of waste management, revenue visibility on account of multi-year Concession agreements entered into with various municipal corporations across India, Diversified revenue streams, healthy operating margins and positive outlook for the business on account of increasing population and consumption leading to higher generation of municipal solid waste.

The rating strengths however are tempered by the Small scale of current operations, exposure to receivables from municipal authorities, reliance on debt for capex, Changes in Government rules and regulations which may affect the operations of the company.

Timely receipt of payments from various counterparties remains the key rating sensitivity factor.

Detailed description of the key rating drivers

Key Rating Strengths

Experience of the promoter companies in the business of waste management

AWHCL, promoted by Mr. Shiju Jacob, Mr.Jose 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 been undertaking waste management services for more than a decade. 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

The company through its subsidiaries has entered into multi-year concession agreement with various Municipal bodies across India. C&T projects are generally awarded for a span of 8 years, while waste processing contracts has a concession period of over 20 years. 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. During FY19, the co. has managed to renew 3-4 existing contracts and has also bagged some new contracts. So, the ongoing contracts along with the recently bid contracts significantly provides future revenue visibility.

Diversified revenue streams

Since the company is the complete Waste management solution 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 etc. having contracts with various municipal bodies across India; Co. is also planning to venture into waste-to-energy project. In this segment, co. has won the contract with Pimpri Chinchwad Municipal Corporation and it is expected to commence operations upon receipt of requisite approvals. Hence there is limited revenue concentration risk either sub-segments wise or geography-wise.

Positive outlook for the business on account of increasing population and consumption power leading to higher generation of MSW

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 expected to grow at a CAGR of 5% (FY 2018-23) from 55 Million TPA in FY 2018 to reach 70 Million TPA

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

by FY2023. The MSW Management market is estimated at INR 30,000 Million for FY2018 and is expected to reach INR 62,000 Million by FY 2023 at a CAGR of 15.6%. 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. (Source: Frost & Sullivan Report)

Healthy operating margins on account of lower maintenance costs.
Company 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 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 company as a group is catering to 10-12 Municipal Corporations. Hence, the Small scale of operations restricts company's financial flexibility and also deprives it of benefits of economies of scale.
In case of its waste processing business involving bio-reactor landfills, the company has small scale of operations and a track record of less than three years. The processing generally takes about 5-6 years and hence the effectiveness of the scientific processing would be known only after completion of the said period.

Exposure to receivables from municipal authorities with track record of delayed payments
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. Co is in discussion with various municipalities to recover the disputed amount through alternate dispute mechanisms including negotiation, conciliation, mediation and arbitration and is hopeful to recover the disputed sums. These are long pending dues whose contracts have already been concluded 4-5 years back. There is no elongation with respect to ongoing contracts.

Reliance on debt capital for capex
Co. majorly relies on debt capital to fund the capital expenditure required. During FY19, company is planning to raise ~Rs.66 Crore to fund the purchase of vehicles (i.e. tippers used for collection and transportation of MSW) required to be deployed for catering to new contracts in Noida and Mumbai region and renewed contracts with existing municipalities, out of which co. has already bought vehicles of ~Rs.42 Cr. Although, capital expenditure is debt funded, overall gearing which is 0.65 times as on 31st March, 2018 is slated to reduce going forward with the accretion of profits, no new capex to be incurred for its waste processing plant which is the most capital intensive unit and part utilization of IPO proceeds to reduce the debt.

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.

Liquidity: Co. had Rs.31.58 crore of cash and cash equivalents as on 31st March, 2018 besides margin money in fixed deposits. Average working capital utilization and non-fund based facility of AWHCL is ~95% and ~89% in last 12M. cash and cash equivalents position of ~Rs.9 Crore as on 31st December, 2018 besides margin money in FDs which is sufficient to cover gross loan repayments in next 3-4 months as and when due.

Analytical approach: Consolidated. For the purpose of analysis, we have taken a consolidated view wherein we have considered balance sheets of below subsidiaries along with standalone entity since all the companies cumulatively provide waste management services

Sr no	Name of entity	Country of incorporation	% effective holding as on 31st March, 2018
1	AG Enviro Infra projects Pvt Ltd	India	100
2	KL Envitech Pvt Ltd	India	100
3	Antony Lara Enviro solutions Pvt Ltd	India	63
4	Antony infrastructure and waste management services Pvt Ltd	India	100
5	Antony Revive E-waste Pvt Ltd	India	100

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[Criteria for Short Term Instruments]
[CARE's Policy on Default Recognition]
[Rating Methodology - Infrastructure Sector Ratings]
[Financial ratios – Non-Financial Sector]

About the Company
Incorporated in Jan 2001, Antony Waste Handling Cell Limited (AWHCL) is one of the leading players in the field of Solid Waste Management services in India. It is a part of Antony Group which has been undertaking waste management services for more than a decade. 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. As on March 31, 2018 AWHCL has five subsidiaries which cater to various waste management projects.
Co. has recently filed DRHP with the regulator for its upcoming IPO. IPO comprises of fresh issue of equity shares aggregating up to Rs 43.5 crore and an offer-for-sale of up to 94,42,164 stocks by the existing shareholders (i.e. PE firms led by Elliott advisors other than promoters) valued at ~Rs.230 Cr. Fresh issue shall be used for debt reduction & general corporate purpose.

Brief Consolidated Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	283.44	287.02
PBILDT	70.56	78.71
PAT	35.61	38.48
Overall gearing (times)	0.85	0.65
PBILDT Interest coverage (times)	2.98	3.77

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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-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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Working Capital Limits	LT	27.50	CARE BBB; Stable	-	1)CARE BBB; Stable (30-Mar-18)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	33.00	CARE A3	1)CARE A3 (22-May-18)	1)CARE A3 (30-Mar-18)	-	-

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