Indigo Sea Ways Private Limited
April 7, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	67.81 (reduced from 84.40)	**CARE A; Stable (CE) [Single A (Credit Enhancement); Outlook: Stable]**	**Reaffirmed**
Short term Bank Facilities	1.70	**CARE A1 (CE) [A One (Credit Enhancement)]**	**Reaffirmed**
Total Facilities@	**69.51 (Rupees Sixty Nine crore and Fifty One Lakh only)**		

Details of instruments/facilities in Annexure-1
@backed unconditional and 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)**

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

Detailed Rationale & Key Rating Drivers for the credit enhanced debt
The rating assigned to the bank facilities of Indigo Sea Ways Private Limited (ISPL) are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by SEPPL.

Detailed Rationale & Key Rating Drivers of SEPPL
The ratings assigned to the bank facilities of Saurashtra Enviro Projects Private Limited (SEPPL) continues to derive strength from the vast experience of the promoters in the waste management segment, established track record of operations with a diversified membership base in the hazardous waste (HW; incineration facility) management segment and healthy order book with low counterparty credit risk principals & low regulatory risk under Municipal Solid Waste (MSW) management segment.
The ratings further derive comfort from SEPPL's healthy profitability, strong liquidity position, low leverage & comfortable debt coverage indicators.
The ratings, however, continue to remain constrained on account of SEPPL's modest scale of operations, which reduced further during FY19 (refers to the period April 01 to March 31) and 9MFY20 (refers to the period April 01 to December 31) as envisaged, increase in working capital intensity on account of elongated receivable period in the MSW processing segment, susceptibility of its profitability to volatile input prices due to fixed-price nature of MSW & water treatment contracts and exposure to high degree of environmental and regulatory risks associated with HW waste management business.
The ratings are also constrained on account of increase in SEPPL's exposure in its loss-making subsidiary 'Indigo Sea Ways Private limited' (ISPL).

<u>Key Rating Drivers of ISPL for unsupported ratings:</u>
The standalone ratings assigned to the bank facilities of ISPL is constrained on account of suspension of operations from September 24, 2019 to February 23, 2020 due to non-availability of sufficient draft to operate the ferry on account of heavy siltation at Dahej port. The discontinuation of operations has resulted in operational losses, poor liquidity profile and weak debt coverage indicators. The ratings are also constrained on account of ISPL's leveraged capital structure and inherent traffic risk associated with the project.
The ratings, however, derives strength from its experienced & resourceful promoters group with an established track record of extending financial support via unsecured interest free loans to fund ISPL's operating losses and debt servicing obligations, strategic route of RORO ferry with significant perceived benefits and funded DSRA amounting Rs.8.26 crore.

Key rating Sensitivities (SEPPL)
Positive Factors
- Sustainable increase in total operating income (TOI) to over Rs.250 crore, while maintaining its healthy profitability.

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

- Growth in its order book to improve its revenue visibility and reduce its geographical concentration.

Negative Factors

- Deterioration in its liquidity profile marked by reduction in its free cash and bank balance (including free liquid investments) to below Rs.100 crore.
- Non-compliance with the rules and regulations prescribed under waste management rules resulting in any adverse impact on the financial profile of the company.
- Delay/Non-receipt of balance stake sale receivables amounting Rs.131.48 crore from Veolia India Private Limited (VIPL).
- Delay/Non-stabilization of operation under ISPL resulting in higher than envisaged financial support from SEPPL.

Detailed description of the key rating drivers: SEPPL

Key Rating Strengths

Vast experience of promoters in waste management: Mr. Chetan Contractor, chairman & managing director of the company, is a mechanical engineer and has over two decades of experience in waste management sector. He is supported by his son, Mr. Varoon Contractor. The promoters are supported by the Board of Directors, which consists of well-qualified personnel with an experience of over a decade in their specialized areas.

Established track record of operation under HW segment with healthy membership base: SEPPL has an established operational track record of over a decade in the processing of industrial waste and is one of the largest waste processors in Gujarat. Post transfer of a part of HW business to Detox India Private Limited (DIPL; erstwhile known as Ankleshwar Cleaner Process Technology Center Private Limited), SEPPL owns and operates an incineration facility for processing of hazardous industrial waste, wherein it enjoys an oligopolistic advantage with established relations with major manufacturing units located in Ankleshwar, Vapi, Central and North Gujarat. As on March 16, 2020, SEPPL had a healthy membership base of around 2100 entities.

Healthy order book under MSW segment: SEPPL ventured into the MSW management segment during FY17 and was awarded multiple contracts for the processing of municipal waste and remediation of dumping sites on engineering, procurement and construction (EPC) basis [including its operations and maintenance (O&M)]. SEPPL continues to have a healthy order book under the MSW segment to be executed over the next 1.5-8 years. SEPPL has further expanded its operations in waste water management by undertaking a project to treat industrial waste water in the state of Rajasthan. SEPPL has also signed a concession agreement with the Government of Gujarat for processing of waste water in Jamnagar, Gujarat.

Low leverage & comfortable debt coverage indicators: The capital structure of SEPPL, marked by overall gearing improved significantly to 0.03x as on March 31, 2019 (0.33x as on March 31, 2018). Improvement in overall gearing is mainly on account of, SEPPL prepaying its entire debt during H1FY19 from its internal accruals & liquidation of investments and a significant increase in net worth on account of profit from sale of its 70% stake in DIPL and Safe Enviro Projects Private Limited (Safe).
SEPPL did not have any fund-based facility in FY19 and short term working capital requirements were met against 100% margin of liquid investments or free cash and bank balances. However, with change in business operations to MSW management segment, SEPPL has availed fund-based working capital facility of Rs.20 crore (with 50% interchangeability with Bank guarantee) and non-fund based limits of Rs.40 from March, 2020 to bid for other projects where bid/ performance guarantee is required.
Debt coverage indicators of the company stood comfortable with Total debt/ PBILDT of 0.39 times as on FY19 end (1.16x as on FY18 end) and interest coverage of 24.37x for FY19 (14.04x for FY18).

Stable growth prospects with growing industrialisation and increasing thrust of government on waste management: Gujarat is one of the most industrialized and fastest growing states of the country. With growth in industrialization, the quantum of waste generated by pharmaceutical, pesticides, bulk drugs, dyes and intermediates industry, which is required to be disposed-off after appropriate treatment, is expected to grow. Furthermore, with the government's emphasis 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

Decline in scale of operations and profitability: As envisaged, the TOI of SEPPL declined by 24.75% y-o-y during FY19 to Rs.118.10 crore (Rs.156.94 crore during FY18) mainly on account of decline in revenue from HW segment with SEPPL transferring all its assets under 'HW segment' (except the Incineration facility at Kutch site) to its associate company - DIPL. As factored earlier, with the decline in revenue from higher margin yielding HW segment, the operating profitability of SEPPL also declined during FY19 to 31.86% from 51.47% during FY18.

Considering FY20 being the first full year of operations with just incineration facility for processing of HW and a major share being contributed by low risk MSW management segment, SEPPL's TOI and PBILDT margin declined further to Rs.74.90 crore and 22.99% respectively.

Stricter government regulations and high compliance requirement: SEPPL's HW processing facilities are governed by Hazardous Waste (Management, Handling and Trans-boundary Movement) Rules, 2008. Furthermore, SEPPL also has to ensure strict compliance with all the norms and provisions published by Pollution Control Boards of the respective state for the processing of MSW. 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.

Susceptibility of profitability to volatile input prices: MSW contracts are fixed price in nature with price revision limited only to few items and is generally executed with a time lag. Thus, the profitability of SEPPL remains exposed to volatile input prices.

Increase in exposure in its loss-making subsidiary – ISPL: ISPL is an SPV formed by a consortium of SEPPL (as lead & financial partner), M/s Star Ferries India Private Limited and M/s Black Ball Transport Inc. (as technical partner) to operate a Ro-Ro ferry project between Dahej and Ghogha, connecting the Saurashtra region with South Gujarat. ISPL unable to achieve the envisaged scale of operations due to suspension of services on account heavy siltation at Dahej port. ISPL has been incurring cash losses resulting in higher than envisaged financial support from SEPPL to meet its operating cost as well as debt repayment obligations. SEPPL's total investment in ISPL as on March 26, 2020 stood at Rs.76.83 crore (Equity investment of Rs.28.83 crore and unsecured interest-free loan of Rs.48.00 crore).

Liquidity: Strong

The liquidity profile of SEPPL continues to remain strong marked by healthy free cash and bank balance (including liquid mutual fund investment) of around Rs.125.00 crore as on March 26, 2020, nil debt repayment obligations and reduction in investment requirement in ISPL and DIPL. During H2FY19, SEPPL also subscribed to new equity shares issue by DIPL resulting in increase in total investment in DIPL from Rs.8.08 crore to Rs.42.70 crore.

However, the working capital intensity of SEPPL's operations has increased on account of increase in contribution of MSW management segment in its TOI, which has an elongated operating cycle as compared to HW management segment. Consequently, SEPPL's average collection period and working capital cycle elongated to 65 days (33 days in FY18) and 19 days (2 days in FY18) respectively during FY19. The current ratio and quick ratio improved to 2.57x (1.38x as on March 31, 2018) and 2.47x (1.27x as on March 31, 2018) respectively as on March 31, 2019.

Going forward, SEPPL's liquidity profile is envisaged to improve further upon receipt of outstanding receivables Rs.131.48 crore in Q1FY21 from VIPL towards 70% stake sale in DIPL and Safe. SEPPL is envisaged to generate cash accruals in the range of Rs.21-31 crore, which will be available to meet incremental working capital requirements/ fund capex/ investment in ISPL.

Analytical approach

Unsupported rating: Standalone

***Credit Enhancement (CE) rating Guarantor's assessment*:** Standalone; however factoring in operating losses and debt servicing obligation under ISPL on account of corporate guarantee extended.

Applicable Criteria:

Short Term Instruments
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Service Sector Companies
Financial ratios - Non- Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology – Construction Sector
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, which 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 GPCB, Ministry of Environment & Forest (MoEF) and Central Pollution control Board (CPCB). Post sale of a majority stake in HW management segment, SEPPL is now focusing on EPC and O&M projects of MSW and waste water treatment.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	156.94	118.10
PBILDT	80.77	37.64^
PAT	47.22	152.86*
Overall Gearing	0.26	0.03
PBILDT Interest coverage (times)	14.04	24.37

A: Audited
^excluding incremental one-time directors' remuneration.
**PAT remains high mainly on account of 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 special purpose vehicle (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 RoRo ferry operations through its vessel 'Voyage Symphony' from October 2018.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2.10	10.44
PBILDT	-4.10	-7.41
PAT	-4.17	-15.02
Overall gearing (times)	2.19	5.35

A: Audited
During H1FY20 (Provisional), ISPL reported TOI of Rs.11.25 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
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	67.81	CARE A (CE); Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	1.70	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	67.81	CARE A (CE); Stable	-	1)CARE A (SO); Stable (15-Feb-19) 2)CARE A (SO) (Under Credit watch with Developing Implications); Stable (29-Nov-18) 3)CARE A (SO);	1)Provisional CARE A (SO); Stable (18-Dec-17)	-

						Stable (23-Apr-18)		
2.	Non-fund-based - ST-Credit Exposure Limit	ST	1.70	CARE A1 (CE)	-	1)CARE A1 (SO) (15-Feb-19) 2)CARE A1 (SO) (Under Credit watch with Developing Implications) (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	-	-	-	-

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.*

Contact us

Media Contact
Mr. Mradul Mishra
Contact no.: +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Mr. Ujjwal Patel
Tel: 079-40265649
Mobile: +91-8511193123
Email: ujjwal.patel@careratings.com

Relationship Contact
Mr. Deepak Prajapati
Contact No.: +91-79-4026 5656
Email ID: deepak.prajapati@careratings.com

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