

Press Release

Maharashtra Enviro Power Limited

April 01, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 315.00 Cr.
Long Term Rating	ACUITE Provisional A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE Provisional A-**' (**read as ACUITE Provisional A minus**) on the Rs. 315.00 crore bank facilities of Maharashtra Enviro Power Limited (MEPL). The outlook is '**Stable**'.

The rating on the Rs. 31.00 crore Proposed Term Loan is provisional and the final rating is subject to the finalisation and vetting of the following requirements by Acuité:

1. Receipt of sanction letter from Bank/Financial Institution.
2. Provisional figures of MEPL for FY2019.

The provisional rating is valid for 90 days. Acuité reserves the right to withdraw/modify/alter the rating prior to 90 days in the case of occurrence of any material credit event.

MEPL is a Nagpur based company incorporated in 2005. It was incorporated with an intention of creating a common waste treatment and disposal for all kinds of industrial waste generated in Maharashtra. It is a subsidiary company of SMS Limited. The company is the sole concessionaire for collection and management of all industrial waste generated in Maharashtra (excluding Mumbai and Konkan region). The company has been awarded this project jointly by Maharashtra Industrial Development Corporation (MIDC) & Maharashtra Pollution Control Board (MPCB) vide Project agreement dated 13 August 2004. The facility commenced in 2007. MEPL has 2 facilities. All the industrial waste collected from Vidarbha region is treated at the Nagpur facility and all the industrial waste collected from other parts of Maharashtra is treated at the Pune facility. The project is built on a build, own, operate and transfer (BOOT) basis.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of MEPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Support from parent company and agreement with MIDC and MPCB**

SMS Limited (SMSL) erstwhile known as SMS Infrastructure Limited, was established in 1963 by Late Mr. Shaktikumar M. Sancheti as a proprietary concern. SMSL, now promoted by Mr. Abhay Sancheti, Mr. Ajay Sancheti and Mr. Anand Sancheti is engaged in undertaking civil construction works via EPC route. The company has diversified its operations into mining, irrigation, road and bridges construction, operating and maintenance of roads, waste management, airports, toll management, electrical works and railways. SMS Limited is the parent company of MEPL with 92 percent holding. With an experienced management, a well established presence across the industry and a reputed clientele, SMS Limited enjoys a healthy order book position and a moderate financial risk profile. MEPL is ably supported by SMS Limited in its operations. MEPL was incorporated as a Special Purpose Vehicle (SPV) by SMS Limited based on a contract for a joint project between MIDC and MPCB. According to the contract, MEPL is the sole concessionaire for collection, disposal and treatment of industrial waste collected in Maharashtra (excluding Mumbai and Konkan region). The company has to provide operating services for 20 years and post monitoring and maintenance services for 30 years. No alternate facility is likely to be supported or authorized by MIDC till the completion of concession period of 20 years in the operating region. MEPL, therefore, is likely to enjoy

a monopolistic market in their operating region with no official competitor. It also gives MEPL flexibility in terms of deciding the rates for collection, disposal and treatment of industrial waste, within the rate cap prescribed by MIDC. This has helped the company to improve their margins over the years. MEPL has recorded healthy operating margins in the range of 44.00 - 53.00 percent for the 3 years ending March 31, 2018.

- **Good revenue visibility on account of high industrial demand and economic growth**

MEPL is growing at an average of 5 percent over the three years ending March 2018. The company caters to more than 30 sectors of industries spanning across 4,000 clients. Being the sole concessionaire for waste management in Maharashtra helps MEPL in establishing consistent business relations with its clients. This dominant position in the market along with long standing relations with clients helps in providing revenue visibility to the company over near to medium future. Further, encouragement towards industrialization led by the central and state government is likely to create more opportunities for investment in different industries. This will help MEPL to add more clients to their portfolio in the future. Further, increase in the level of economic activity and industrialization is likely to elevate the demand in the market. This is likely to result in an increase in the production levels, thereby generating incremental waste. Increase in the volume of waste generated will help MEPL in earning higher revenue over near to medium future. Acuité believes that sustainable increase in revenue and clientele will provide a good revenue visibility for the company in near to medium term.

Weaknesses

- **High debt and average debt protection measures**

MEPL has maintained an aggressive financial policy with a peak gearing of 5.26 times for the three years ending March 2018. The gearing has increased from 0.55 times as on March 2017 to 5.26 times as on March 2018 on account repayment of debt and moderate erosion of reserves. The company plans to undergo a capital expansion of Rs.40.00 - 50.00 crore over the medium term funded by debt to equity ratio of 10:90. The gearing is likely increase to 5.38 times over the medium term. Acuité expects the gearing of MEPL to remain in the range of 3.30 - 5.40 over the medium term on account of moderate accretion to reserves and capital expenditure incurred.

The revenue for FY2018 has grown at 7.81 percent to Rs.120.11 crore. Operating margins have been in the range of 44 - 53 percent over the 3 years ending March 31, 2018. Moderate profitability levels along with high debt levels have led to average debt protection measures. The interest coverage ratio stood at 1.62 times for FY2018 and is expected to remain in the range of 1.65 - 2.71 times. Total outside liabilities / tangible net worth stood at 6.30 times as on March 31, 2018. The net cash accruals / total debt (NCA/TD) levels are expected remain in the range of 0.08 to 0.17 in the near to medium future.

Liquidity Profile

MEPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.23.00 - 61.00 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.15.00 – 40.00 crore over the same period. The cash accruals of MEPL are estimated to remain around Rs.25.00 – 50.00 crore during 2019-21 while its repayment obligations are estimated to be around Rs. 15.00 – 32.00 crore. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 273 in FY2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the company remains utilized at 70 percent during the last 12 months period ended February 2019. MEPL maintains unencumbered cash and bank balances of Rs.3.44 crore as on March 31, 2018. The current ratio of MEPL stands healthy at 1.09 times as on March 31, 2018. The company is likely to incur capex of Rs.40.00 – 50.00 crore over the medium term. Acuité believes that the liquidity of MEPL is likely to remain adequate over the medium term on account of healthy cash accruals over the medium term.

Outlook: Stable

Acuité believes that MEPL will maintain a 'Stable' outlook on its business risk profile on account of its established operational track record and experienced management. The outlook may be revised to 'Positive' in case MEPL is able to achieve substantial and sustained growth in revenue coupled with improvement in profitability levels coupled with improvement in its capital structure resulting from considerable capital infusion by promoters. The outlook may be revised to 'Negative' in case MEPL reports lower than expected revenue along with significant decline in profitability or deterioration in the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	120.11	111.41	106.63
EBITDA	Rs. Cr.	63.15	51.31	47.80
PAT	Rs. Cr.	-5.17	31.19	19.89
EBITDA Margin	(%)	52.58	46.05	44.82
PAT Margin	(%)	-4.30	28.00	18.65
ROCE	(%)	16.32	38.70	81.71
Total Debt/Tangible Net Worth	Times	5.26	0.55	0.06
PBDIT/Interest	Times	1.62	55.89	47.83
Total Debt/PBDIT	Times	5.23	0.76	0.06
Gross Current Assets (Days)	Days	273	262	112

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	315.00	ACUITE Provisional A- / Stable (Assigned)

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About Acuité Ratings & Research:

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