

Press Release
MAHARASHTRA ENVIRO POWER LIMITED
June 04, 2024
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	174.00	ACUITE BBB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	174.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB+** ' (read as **ACUITE t riple B plus**) on the Rs. 174.00 Cr. bank facilities of Maharashtra Enviro Power Limited (MEPL). The outlook is '**Stable**'.

Rationale for the rating

The rating assigned factors in the established track record and experience of the promoters in the hazardous waste management industry, leading to healthy revenue growth as marked by a CAGR of around 20 percent in the last 3 years. The rating also factors in the agreement signed with Maharashtra Industrial Development Corporation (MIDC) and Maharashtra Pollution Control Board (MPCB) for 20 years which leads to higher revenue visibility for the company from the hazardous waste management. Further, rating also factors in the healthy financial risk profile of the company as marked by low gearing of 1.39 times as on 31st March 2023. However, the rating is constrained by significant amount of loans and advances given to various group companies which leads to intensive working capital operations for the company.

About the Company

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 Vidharbha 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. The current directors of the company are Mr. Prashant Mahadeorao Maske, Mr. Rakesh Kumar Mishra, Mr. Hemant Kumar Lodha, Mr. Satish Wate, Mr. Asif Abu Muzzafar Hussain, Ms. Anita Rao and Ms. Premlata Gaurav Saboo.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Established experience of the promoters and agreement with MIDC and MPCB

SMS Limited (SMSL) erstwhile known as SMS Infrastructure Limited, was established in the year 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 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. Also, increase in push by the government for affluent waste treatment and for maintaining a clean and green environment and thereby supporting growth initiatives to curb unhygienic hazardous waste disposal will help the company. 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 maintain its margins over the years. Increase in govt on affluent treatments and maintaining a clean and green environment supports this growth initiatives

Healthy revenue visibility on the back of gradual additions to industrial consumer base

MEPL is growing at an average of more than 20 percent over the three years ending March 2024. 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. 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.

Acuite believes that sustainable increase in revenue and clientele is likely to provide a good revenue visibility for the company in near to medium term.

Healthy Financial Risk Profile.

The financial risk profile of the company stood healthy, marked by healthy net worth, low gearing (debt-equity) and comfortable debt protection metrics. The tangible net worth stood at Rs. 188.21 crore as on 31 March 2023 as against Rs.135.31 crore as on 31 March 2022. Increase in net worth was on account of accretion of profits to reserve. The total debt of the company stood at Rs. 261.35 crore which includes long term loan of Rs.248.18 crore and short term loan of Rs.13.17 crore in terms of CC as on 31 March 2023. The gearing (debt-equity) stood at 1.39 times as on 31 March 2023 as compared to 2.05 times as on 31 March 2022. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.8 times as on 31 March 2023 as against 2.69 times as on 31 March 2022. Further the coverage ratio, Interest Coverage Ratio stood at 2.87 times for FY2023 as against 2.16 times for FY2022 and Debt Service Coverage Ratio (DSCR) stood at 1.82 times in FY2023 as against 1.39 times in FY2022. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.26 times for FY2023 as against 0.15 times for FY2022.

Acuite believes that the financial risk profile of the company will remain healthy going ahead on account of low capex as against the net cash accruals.

Weaknesses

Significant loans and advances in group companies leading to Intensive Working

Capital operations for the company.

The company MEPL has made significant amount of investments in various group companies leading to intensive working capital operations for the company. The working capital management of the company is intensive marked by GCA days of 192 days in FY23 as against 151 days in FY22. Higher GCA days are on account of higher other current assets consisting of loans and advances to the group company. The inventory days for the company stood at 17 days in FY2023 as against 20 days in FY2022. Subsequently, the debtor's collection period stood at 67 days in FY23 as against 88 days for FY22. whereas the creditors days stood at 110 days in FY23 as against 98 days in FY22. Further the working capital limits utilization is moderate with fund-based limit utilization of around 87 percent in the last 12 months ended January' 2024. The company MEPL has around Rs.367 crore of loans and advances given to various group companies for their operations.

Acuite believes that the timely receipt of the loans and advances from the group companies will be a key rating sensitivity for the company.

Rating Sensitivities

- Timely receipt of advances given to group companies

Liquidity Position

Adequate

The company's liquidity position is adequate, marked by sufficient net cash accruals against the maturing debt obligations. The company generated net cash accruals in the range of Rs.35.37 to Rs.69.03 crore from FY2021 to FY2023 as against matured repayment obligations of around Rs.20 crore in the same tenure. In addition, it is expected to generate cash accrual in the range of Rs.87.85 - 100.01 crore against the maturing repayment obligations of Rs.40.00 crore over the medium term. Further, the working capital limits are marked by moderate utilizations of fund-based limit of around 87 percent in the last 12 months ended January' 2024. The current ratio stands at 0.55 times as on March 31, 2023, as against 0.57 times as on 31 March 2022.

Acuite expects the liquidity of the company is likely to remain adequate with steady cash accruals over the medium term.

Outlook: Stable

Acuite believes that the outlook on MEPL will continue to remain 'Stable' over the medium term backed by its strong 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 successfully realise the loans and advances given to various group companies. 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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	162.05	135.91
PAT	Rs. Cr.	52.53	30.30
PAT Margin	(%)	32.42	22.30
Total Debt/Tangible Net Worth	Times	1.39	2.05
PBDIT/Interest	Times	2.87	2.16

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.96	ACUITE BBB+ Stable Assigned
Axis Finance Limited	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Nov 2028	Simple	173.04	ACUITE BBB+ Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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