

Press Release

Recycling Solutions Private Limited

April 27, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	52.50	ACUITE A- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	52.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) to the Rs. 52.50 crore bank facilities of Recycling Solution Private Limited (RSPL). The outlook is '**Stable**'.

The rating factors the healthy financial risk profile marked by adequate debt protection metrics and improved scale of operations with revenue CAGR of 28 percent through FY 2019-21, the rating also factors the geographical and sectoral diversification, reputed clientele and the extensive experience of the promoters of more than two decades in the waste management industry. However, the rating remains constrained on account of the stringent regulations applicable to the industry, cash flow support to other group companies in form of loans and advances and upcoming market for alternate fuel marked by modest contribution to total revenue of 3 percent.

About the Company

Surat based RSPL was incorporated in 2012 with registered office in Mumbai, is a part of the Luthra Group and is engaged in the business of operation and maintenance of infrastructure project for hazardous waste management. It has 2 operating pre-processing facility in Panoli, Gujarat; authorized by Gujarat Pollution Control Board.

About the Group

The Luthra Group (LG) is a conglomerate of diversified independent businesses consisting of modern textile industrial park, infrastructure development companies and waste management companies. Founded in the year 1980 by Mr. Rameshchandra. M. Luthra, the LG started its operations in the textile industry at Surat by establishing dyeing and printing mills. Presently, the LG is led by Mr. Girish Luthra and his son Mr. Dhruv Luthra. Currently, services offered by the LG include hazardous waste management and disposal, textile, waste water treatment, eco sustainable industrial park etc. The group diversified into the business of hazardous waste management in the year 1999.

Green Gene Enviro Protection and Infrastructure Private Limited (GGEIPL) incorporated in 2005, is a private company based in Surat with registered office in Mumbai. The company is a part of the Luthra Group and is engaged in operating and maintaining infrastructure facilities for integrated waste treatments, storage and disposal in major states across India. Further, the company by carrying out pre-processing of wastes converts it into fuel which supplied to cement companies. The company has four active plants. The plants are located at Rakamcharla in Telangana, Ranipet in Tamilnadu, Mota Randha in Dadra and Nagar Haveli, Chittorgarh in Rajasthan.

Surat based Gujarat Enviro Protection and Infrastructure Haryana Private Limited (GEIPL) was incorporated in 2005 with registered office in Mumbai. GEIPL is a subsidiary of GGEIPL and is engaged in operation and maintenance of environment infrastructure project for hazardous waste management. The company has its integrated common hazardous waste treatment, storage and disposal facility at Pali, Faridabad in Haryana. The company is the only waste management service provider in the state of Haryana.

Envoy Carrier Private Limited (ECPL) a part of the LG is engaged in providing waste transportation services to GGEIPL, RSPL and GEIPL. The companies have subcontracted the transport services to ECPL. ECPL operates 200-250 trucks. RSPL and GGEIPL hold 49 percent each in ECPL.

Analytical Approach

The team has consolidated the standalone business and financial risk profiles of GGEIPL, RSPL, GEIPL and ECPL, together referred to as the 'Green Gene Group' (GGG). The consolidation is in view of the common management, similar line of business and strong operational & financial linkages between the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Extensive management experience and established track record of operations:**

The Luthra Group diversified into the waste management and alternate fuel processing business in the year 1999. The hazardous waste management business is operated under the GGG and the business operations are presently managed by Mr. Girish Luthra and his son Mr. Dhruv Luthra. The GGG in total has managed to set up seven operating plants across India with a total capacity of 5,47,312 tonnes per annum. Further, the group is presently setting up its largest plant in the state of Maharashtra with a total capacity of 3,00,000 metric tonnes per annum. Additionally, each of the plant consists of alternate fuel processing facilities. The GGG caters to a number of sectors including pharmaceutical, automobile, chemical manufacturing, textile, thereby ensuring sectoral diversification. Also, the group has an established clientele and provides waste management services to SRF Limited, Hemani Industries Limited, Gurugram Metropolitan Development, Bharat Rasayan Limited, Gujarat Fluorochemicals Limited, Aarti Industries Limited, etc. About 40 percent of the total income is derived from customers with a strong credit profile.

Going forward the revenue contribution from alternate fuel supplied to cement companies is expected to increase owing to the restrictions imposed on cement industry towards coal consumption, presently alternate fuel contributes ~3 percent to the total revenue.

Acuite believes with the favorable operating environment on account of increasing compliance around waste management and disposal, wide presence of the GGG and long track record of operations will strengthen the business risk profile over the medium term.

- **Healthy financial risk profile and adequate debt protection metrics:**

The financial risk profile of the GGG is healthy marked by healthy net worth, low debt and healthy debt protection metrics. The net worth of the GGG stood at Rs. 239.20 Cr in FY2021

against Rs. 108 Cr as on March 31, 2019. The improvement in net worth is attributable to the increase in scale of operations and stable operating margins. Acuite believes that the networth of the company is expected to remain healthy over the near to medium term.

The group has followed a conservative financial policy in the past, the same is also reflected through its peak gearing levels of 0.39 times as on March 31, 2019. The gearing levels of the company have further improved to 0.21 times as on March 31, 2021 and are expected to remain in similar range over the near to medium on the back of adequate cashflow from operations leading to limited reliance on external borrowings.

The healthy profitability levels coupled with low debt levels has resulted in healthy debt protection metrics with Debt service coverage ratio (DSCR) and Interest coverage ratio (ICR) of 7.54 times and 15.25 times as on March 31, 2021 against 4.79 times and 8.00 times as on March 31, 2020 respectively.

Acuite expects the financial risk profile to remain healthy over the medium terms on account of healthy accretion to reserves and limited dependence on debt funded capex.

- **Improving scale of operations and sustained profitability:**

The revenue of the GGG has witnessed consistent improvement. The GGG reported a total revenue of Rs. 122.07 in FY2019, Rs. 207.23 Cr in FY2020 and Rs. 253.38 Cr in FY2021. The revenue increase to an extent is attributed to increase in capacity by 60,000 metric tonnes in Dec 2019 in Panoli, Gujarat. The capacity utilization of this plant stood at 74 percent in the 11-month period ended February 2022 against overall average utilization of 39 percent in the same period. Further, the services supplied by GGG was classified as an essential service during the Covid 19 pandemic, as a result the revenue of the group remained unaffected. The EBITDA of the GGG stood at improved to 34.19 percent in FY2021 against 29.62 percent in the previous year. The transportation services are provided by ECPL thereby contributing additional 6 percent to the overall operating profit in FY2021. Also, the group expects additional Rs. 50.00 Cr from the new plant in Maharashtra from FY2024. The group recorded total income of Rs. 293 Cr in the 11-month period ended February 2022. Additionally, the GGG signs long term contracts with its customers, has minimum volume commitment, annual price escalation clause and periodic revision in transportation cost in line with changing market prices. This ensures revenue visibility over the medium term and mitigates susceptibility of operating margins to changing raw material prices.

Weaknesses

- **Sizeable investment in group companies:**

There has been a continuous increase in the advances given by GGG to other group companies of the Luthra Group to support the business operations, diversification and scalability. The total loans and advances stood at Rs. 127.32 Cr as on March 31, 2021 against Rs. 97.87 Cr as on March 31, 2020. Of the total advances as on March 31, 2021, Rs. 100.00 Cr was advanced to related and extended related parties and the rest to one of its suppliers. The returns from these investments was 4 percent in FY2021. Going forward, LG intends to further expand its operations, the expansion shall be funded through the cash flows of the GGG. The adjusted debt to equity i.e. after reducing short term loans and advances from equity stood at 0.34 times as on March 31, 2021.

Acuite believes, the financial risk profile of GGG over the medium term would remain stable subject to proper cash flow management with group companies.

- **Strict Government regulations:**

Waste management industry is subject to strict government regulations laid under the state and central pollution control board. Any change in regulations could negatively affect the industry and the performance of the company. Non-adherence to the same could result into levy of penalties, license cancellation and also plant shutdown.

Rating Sensitivities

- Growth in revenue from operations while maintaining profitability margins.

- Financial risk profile adversely impacted on account of investment in group companies and the adjusted debt to equity exceeds 0.50 times.
- Any legal or regulatory action as a result of non-compliance with regulatory guidelines against GGG thereby weakening the scale of operations, profitability and financial risk profile.

Material covenants

None.

Liquidity Position: Strong

GGG generated net cash accruals (NCA) in the range of Rs. 30.91 Cr to Rs. 80.47 Cr through 2019-21 against repayment obligations of Rs. 5.95 Cr to Rs. 4.65 Cr during the same period. NCA going forward is estimated to be Rs. 87.87 Cr and Rs. 90.58 Cr, while its repayment obligations are expected to be Rs. 3.54 Cr and Rs. 3.58 Cr in FY2022 and FY2023 respectively. In FY2021, the gross current asset (GCA) days stood at to 298 with inventory and debtor days of 7 and 53 respectively, however, the GCA days include other current assets including balance with government authorities and loans given to employees. Despite the high GCA days the bank limit utilization of GGG stood modest at 22 percent for the three-month period ended February 2022, due negative working capital cycle. The creditor days of GGG was in the range of 86-66 through 2019-21. Further, GGG maintained cash and bank balance of Rs.2.70 Cr and unencumbered liquid investment of Rs. 4.34 Cr as on March 31, 2021.

Outlook: Stable

Acuité believes that GGG will maintain a 'Stable' outlook over the medium term due to experienced promoters, long-standing relationship with customers and sustained improvement in scale of operations. The outlook may be revised to 'Positive' in case the company registers substantial growth in revenues while achieving sustained improvement in operating margins thereby improving the financial risk profile and the liquidity profile. Conversely, the outlook may be revised to 'Negative' in case of lower-than expected revenues and profit margins and debt funded expansion or unsustainable advances made to other companies thereby adversely impacting the financial risk profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	253.38	207.23
PAT	Rs. Cr.	36.99	19.12
PAT Margin	(%)	14.60	9.23
Total Debt/Tangible Net Worth	Times	0.16	0.36
PBDIT/Interest	Times	15.25	8.00

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>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument<https://www.acuite.in/view-rating-criteria-55.htm>**Rating History:**

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
SVC Co-Op Bank Limited	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	42.50	ACUITE A- Stable Assigned
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	8.00	ACUITE A- Stable Assigned
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	1.50	ACUITE A- Stable Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Aruna Ganesh Analyst-Rating Operations Tel: 022-49294065 aruna.ganesh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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