Press Release
RECYCLING SOLUTIONS PRIV ATE LIMITED
July 28, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE A- | Stable | Assigned	-
Bank Loan Ratings	52.50	ACUITE A- | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	102.50	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE A-' (read as ACUITE A minus)** to the Rs. 52.50 Cr bank facilities of Recycling Solutions Private Limited (RSPL). The outlook is **'Stable'**.

Also, Acuité has assigned its long term rating of **'ACUITE A-' (read as ACUITE A minus)** to the 50.00 Cr. bank facilities of ecycling Solutions Private Limited (RSPL). The outlook is **'Stable'**.

Rationale for rating reaffirmation
The rating takes into account the improvement in business risk profile reflected by improvement in revenue from operations and profitability of the group. The revenue from operations improved to Rs. 387.08 Cr. in FY23 (provisional) as against Rs. 311.76 Cr. in FY22 reflecting a growth of ~24% YoY during the period. The improvement was mainly on account of higher execution of orders for waste management. Furthermore, the rating factors include the group's healthy financial risk profile, geographical diversification of its business, and adequate liquidity position. The rating also draws comfort from the extensive experience of the promoters and reputed clientele of the group from various industries.
However, the rating remained constrained on account of the sizeable amount of cash flow support provided to other group companies in form of loans and advances. Furthermore, the group operates in a regulated industry where any sort of regulatory change shall impact the performance.

About Company

Surat based Recycling Solutions Private Limited (RSPL) was incorporated in 2012 with registered office in Mumbai, is also part of the Luthra Group (LG) and is also 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. Surat based Recycling Solutions Private Limited (RSPL) was incorporated in 2012 with registered office in Mumbai, is also part of the LG and is also 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. Surat based Gujarat Enviro Protection and Infrastructure Haryana Private Limited (GEPIPL) was incorporated in 2005 with registered office in Mumbai. GEPIPL is a subsidiary of GGEPIPL 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, where they are the only waste management service provider. Envoy Carrier Private Limited (ECPL) is engaged in providing waste transportation services to GGEPIPL, RSPL and GEPIPL. RSPL and GGEPIPL hold 49 percent each in ECPL.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

The team has consolidated the standalone business and financial risk profiles of GGEPIPL, RSPL, GEPIPL 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

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 9,00,000 MT per annum with an average utilisation of 40-45%. Further, the group is setting up two additional plants and capacity enhancement in one of the existing plants. Of the same, one greenfield plant will be used for industrial waste which is already completed and the other one will be used for municipal waste. 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 among others, thereby ensuring sectoral divarication. 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 only ~3 percent to the total revenue.

Acuité believes the favourable 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.

Augmentation in scale of operations and profitability

The revenue from operations of the group reported growth in operating income to Rs. 387.08

Cr in FY23 (provisional) as against Rs. 311.76 Cr in FY22 reflecting a growth of ~24% during the period. The improvement was majorly on account of higher execution of orders towards waste management. The group initially collects waste from several industries such as pharmaceuticals, textiles, and agro processing, to name a few. The waste is subsequently transported to the Alternate Fuel Resource Facility and the Treatment and Safe Disposal Facility. Also, the group earns majority of its revenue i.e. 97% from collection of the waste from waste generator companies and the rest as tipping fees from the cement companies. The profitability of the group also witnessed an improvement as reflected by improvement in operating profit margin to 37.45% in FY23 (Provisional) compared against 36.70% in FY22. The PAT margins also witnessed improvement to 26.69% in FY23 (Provisional) as against 19.58% in FY22.
Additionally, GGG signs long term contracts with its customers and has minimum volume commitment with 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.

Acuité believes that the ability of the company to maintain its scale of operations and improvement in profitabilitywill remain a key monitorable over the medium term.

Healthy financial risk profile with comfortable debt protection metrics
The financial risk profile of the group is healthy marked by high net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the group stood high at Rs. 455.12 Cr in FY23 (provisional) as compared to Rs. 347.43 Cr in FY22. The improvement in net worth is majorly on account of accretion of reserves. The total debt of the group stood at Rs. 252.40 Cr in FY23 (provisional) as against Rs. 45.60 Cr in FY22. The gearing of the group remained low at 0.55 times in FY23 (provisional) as against 0.13 times in FY22. However, the gearing of the company is expected to deteriorate over the near term on account of additional borrowing availed by the group. The increase in debt levels of the group is majorly on account construction of new greenfield plants and capacity addition of existing units. GGEPIPL had set up 2 plants in Gujarat and Maharashtra. The construction of industrial waste plant has been completed and awaiting consent to operate (CTO) from authorities. The other municipal waste plant is expected to be completed by Sep' 2023. The TOL/TNW stood at 0.80 times in FY23 (provisional) against 0.40 times in FY22. The debt protection metrics remained comfortable with DSCR at 9.14 times and ISCR at 16.86 times in FY23 (provisional).

Acuité believes that the financial risk profile of GGG is expected to remain healthy on account of steady margins and conservative financial policy.

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. 184.65 Cr as on March 31, 2022 against Rs.127.32 Cr as on March 31, 2021. 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 0.28 times as on March 31 2022 which is likely to deteriorate over the near term on account of additional borrowing by the group for its expansion plans. Acuité 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.

ESG Factors Relevant for Rating

The Green Gene Group is in business to sustainably manage waste thereby generating value for shareholders and society. The group has embedded consideration of ESG factors throughout the operations of its business. The company is fundamentally committed to building a long-term business, which will sustainably manage waste and grow; provide employment and generate economic benefit in an environmentally and socially responsible manner.

The company commits to addressing the following environmental impacts and problems:

- Factors contributing to and impacts of climate change
- Potential contamination of ground and surface water resources
- Gaseous emissions
- Energy efficiency and renewable energy
- The potential impact on biodiversity and ecological functions

The company commits to addressing the following social impacts and problems:

- Employees training on topics from construction hazards, waste handling, machines safeguard, fire safety to material handling in case of emergency & heavy vehicle safety
- All sites follow government regulations of the minimum age of employment
- The group has implemented Anti-sexual harassment policy for all employees
- The group has CSR Policy as per Schedule VII of the Company Act 2013 and mainly focused on Health, Education, and Environment

The company commits to addressing the following governance impacts and problems:

- Board of 6 members, headed by Chairman & MD, has 3 Independent Directors including one independent Woman Director.
- Committees including Audit, Nomination Remuneration, and Stakeholders Relationship Committee, are chaired by an Independent Director
- Vigil Mechanism/ Whistle-blower Policy to facilitate reporting of genuine concerns or grievances
- Code of Conduct applies to all Directors and Senior Members of the core management team who are one level below the Board

Code of Conduct is designed to deter wrongdoing & promotes honest & ethical conduct of various applicable laws, financial reporting, & accounting requirements and responsibilities to customers and suppliers

Rating Sensitivities

- Growth in revenue from operations while maintaining profitability margins
- Financial risk profile adversely impacted on account of investment in group companies
- 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

The liquidity position of the group remains strong on account of sufficient net cash accruals against matured debt obligations. The net cash accruals of the group stood at Rs. 114.38 Cr against matured debt obligations of Rs. 4.50 Cr during the same period. Also, the company is expected to generate net cash accruals of Rs.144.34 Cr to Rs.186.17 Cr in FY23-25 period as against maturing repayment obligations of Rs. 25 Cr to Rs. 34 Cr during the same period. The Gross Current Assets (GCA) remained high at 322 days for FY23 (provisional) compared against 342 days for FY22. The high GCA days is majorly on account of sizeable loans and advances to related parties. However, the working capital cycle of the company is negative owing to debtor days and inventory days of 66 days and 7 days respectively. The average bank limit utilisation by the group remained at 69.34% for FY23 on account of adequate net cash accruals. Also, the company maintains a cash balance of Rs. 8.22 Cr as on 31st March 2023 (provisional). Acuité believes that the liquidity position of the company will continue to remain adequate on account of adequate cash accruals against matured debt obligations over the medium term.

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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	387.08	311.76
PAT	Rs. Cr.	103.33	61.06
PAT Margin	(%)	26.69	19.58
Total Debt/Tangible Net Worth	Times	0.55	0.13
PBDIT/Interest	Times	16.86	47.79

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

Not Applicable

Any Other Information

None

Applicable Criteria

• 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
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Service Sector: https://www.acuite.in/view-rating-criteria-50.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 May 2023	Term Loan	Long Term	1.50	ACUITE A- | Stable (Reaffirmed)
	Term Loan	Long Term	8.00	ACUITE A- | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	42.50	ACUITE A- | Stable (Reaffirmed)
	Secured Overdraft	Long Term	0.50	ACUITE A- | Stable (Reaffirmed)
27 Apr 2022	Proposed Bank Facility	Long Term	42.50	ACUITE A- | Stable (Assigned)
	Secured Overdraft	Long Term	0.50	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	8.00	ACUITE A- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.25	ACUITE A- | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.86	ACUITE A- | Stable | Assigned
Bajaj Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	23.11	ACUITE A- | Stable | Reaffirmed
Axis Finance Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	22.22	ACUITE A- | Stable | Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.92	ACUITE A- | Stable | Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	48.25	ACUITE A- | Stable | Assigned
Bajaj Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.89	ACUITE A- | Stable | Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Khushi Shah Analyst-Rating Operations Tel: 022-49294065 khushi.shah@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.