



Press Release
Recycling Solutions Private Limited
February 16, 2024
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) to the Rs. 102.50 Cr bank facilities of Recycling 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. The revenue from operations improved to Rs. 371.03 Cr in FY23 as against Rs. 313.17 Cr in FY22 reflecting a growth of 18.48% YoY during this period. The improvement was majorly on account of higher execution of orders towards waste management. Furthermore, the rating factors in the group's healthy financial risk profile, geographical diversification of its business, and strong 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 park, waste water treatment, eco sustainable industrial park etc. The group diversified into the business of hazardous waste management in the year 1999.

Surat based Green Gene Enviro Protection and Infrastructure Private Limited, incorporated in 2005, is a private company 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 waste converts it into fuel which supplied to cement companies. The company has four active plants. The plants are located at DNH, Chittogarh, Tamil Nadu and Telangana.

Surat based Gujarat Enviro Protection and Infrastructure Haryana Private Limited (GEPIHPL) was incorporated in 2005 with registered office in Mumbai. GEPIHPL 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, where they are the only waste management service provider.

Surat based Envoy Carrier Private Limited (ECPL) was incorporated in 2012 with registered office in Mumbai. ECPL is a subsidiary of RSPL. Till 2022, the company operated as an intermediate for the transportation of waste materials. The company has closed down its existing business and has forayed into the EPC business. It has already booked revenues of Rs. 7.58 Cr in FY23.

Chittorgarh based Green Gene Recyclers Private Limited (GGRPL) was incorporated in 2021 and commissioned in October 2023 with registered office in Mumbai. GGRPL is a subsidiary of GEPIPL. The company is planning to setup SAF plant at Chittorgarh with an installed capacity of 2000 MT per month. However currently, the capacity of the plant is 400 MT. The proposed facility shall receive RDF Incinerable Fraction generated post bio mining of legacy waste, which will be converted into fuel and supply generated Sustainable Alternate Fuel (SAF) to cement companies for blending with the main fuel. The company has entered into short term contracts with companies like Udaipur cements and Nuvoco Vistas to evaluate the response in the market with contract timelines contingent on the production timelines.

Unsupported Rating

Not Applicable

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 GGEIPL, RSPL, GEPIHPL, ECPL and GGRPL together referred to as the 'Green Gene Group' (GGG). The consolidation is in view of the common management 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 caters to a number of sectors including pharmaceutical, automobile, chemical manufacturing, textile among others, 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 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

The consolidated revenues of Green Gene Group grew to Rs. 371.03 Cr in FY23 as against Rs. 313.17 Cr in FY22 registering a growth of ~18.48% 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 PAT margins of the group also witnessed improvement to 28.33% in FY23 as against 27.28% in FY22. However, the EBITDA margins of the company declined and stood at 34.91% in FY23 as against 37.76% in FY22. The decline in EBITDA was on account of higher manufacturing costs of the group.

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 profitability will 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. 428.57 Cr in FY23 as compared to Rs. 317.07 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. 231.24 Cr in FY23 as against Rs. 49.37 Cr in FY22. The gearing of the group remained low at 0.54 times in FY23 as against 0.16 times in FY22. The increase in debt levels of the group is majorly on account of construction of new greenfield plants and capacity addition of existing units. GGEPIPL had set up 2 plants in Gujarat and Maharashtra. The Ahmedabad based plant is for the treatment and disposal of the municipal waste. It has received consent to operate and commenced operations in November 2023. The phase 1 construction of industrial waste plant at Sangli has been completed and phase 2 for the same is expected to be completed by March 2024. Recycling Solutions Private Limited has completed the capacity expansion at the Panoli site for which the company incurred at a capex of Rs. 97.84 Cr which was funded through Rs. 48.25 Cr from bank loan and Rs. 49.59 Cr from internal accruals. The TOL/TNW stood at 0.79 times in FY23 as against 0.44 times in FY22. The debt protection metrics remained comfortable with DSCR at 8.34 times and ISCR at 12.87 times in FY23.

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

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. 116.96 Cr against matured debt obligations of Rs. 4.19 Cr during the same period. The Gross Current Assets (GCA) remained high at 406 days for FY23 as against 317 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 52 days and 7 days respectively. The average bank limit utilisation by the group remained at 42.77% in FY23 on account of adequate net cash accruals. Also, the company maintains a cash balance of Rs. 11.75 Cr as on 31st March 2023. 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 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	371.03	313.17
PAT	Rs. Cr.	105.10	85.43
PAT Margin	(%)	28.33	27.28
Total Debt/Tangible Net Worth	Times	0.54	0.16
PBDIT/Interest	Times	12.87	20.70

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. Acuité'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
28 Jul 2023	Term Loan	Long Term	23.11	ACUITE A- Stable (Reaffirmed)
	Cash Credit	Long Term	0.25	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	0.89	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	6.92	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	48.25	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	22.22	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.86	ACUITE A- Stable (Assigned)
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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.50	ACUITE A- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.61	ACUITE A- Stable Reaffirmed
Bajaj Finance Ltd.	Not avl. / Not appl.	Term Loan	09 Sep 2022	Not avl. / Not appl.	09 Sep 2028	Simple	0.89	ACUITE A- Stable Reaffirmed
State Bank of India	Not avl. / Not appl.	Term Loan	19 Jul 2022	Not avl. / Not appl.	19 Jul 2027	Simple	48.25	ACUITE A- Stable Reaffirmed
Bajaj Finance Ltd.	Not avl. / Not appl.	Term Loan	09 Sep 2022	Not avl. / Not appl.	09 Sep 2028	Simple	20.93	ACUITE A- Stable Reaffirmed
Axis Finance Limited	Not avl. / Not appl.	Term Loan	30 Mar 2022	Not avl. / Not appl.	30 Mar 2029	Simple	20.92	ACUITE A- Stable Reaffirmed
SVC Co-Op Bank Limited	Not avl. / Not appl.	Term Loan	21 Aug 2021	Not avl. / Not appl.	21 Aug 2028	Simple	6.40	ACUITE A- Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

1) Green Gene Enviro Protection and Infrastructure Private Limited	Associate
2) Gujarat Enviro Protection and Infrastructure Haryana Private Limited	Subsidiary
3) Recycling Solutions India Private Limited	Associate
4) Envoy Carrier Private Limited	Subsidiary
5) Green Gene Recyclers Private Limited	Associate

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.