

Press Release

Hindustan Enviro Life Protection Services Ltd.

February 01, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term/Short Term Bank Facilities	46.00	IVR BBB/ Positive Outlook/ IVR A3+ (IVR Triple B with Positive Outlook/ IVR A Three Plus)	Assigned
2	Long Term Bank Facilities (incl. proposed limit of Rs.1 crore)	14.00	IVR BBB/ Positive Outlook (IVR Triple B with Positive Outlook)	Assigned
3	Short Term Bank Facilities	12.00	IVR A3+ (IVR A Three Plus)	Assigned
	Total	72.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings take into account the experienced promoters and management team, presence in a niche segment, locational advantage and established relations with reputed clientele. The ratings further derive strength from the comfortable capital structure and debt protection metrics and improvement in profitability margins.

The rating, however, is tempered by low scale of operation, volatility in the prices of raw materials, geographical concentration and regulated nature of the industry.

Growth in scale of operation and profitability along with working capital management are the key rating sensitivities.

Outlook: Positive

The positive outlook reflects likelihood of improvement in revenue and operating profitability based re-refining operation, wherein the margins are higher. The outlook may be revised to "Stable" if the aforesaid improvement does not occur timely as envisaged.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters & management team

The founder promoters, Mr. Ahmed Lakadia has over 15 years of experience in the waste recycling industry, along with Mr. Dipen Bankar having experience in project finance & consultancy. The promoters are well supported by a management team comprising quite a few highly qualified & experienced professionals.

Niche Product Segment

HELP operates in a niche product segment wherein it is engaged in recycling of industrial waste along with re-refining of lubricant oil.

Locational Advantage

Gujarat is a highly industrialized state of India with the presence of various petrochemical based industries and is prominently growing in terms of new industrial units. Although the state has many units for industrial waste management located in industrial areas, there are not integrated waste management and processing facilities since it is a capital intensive business.

Established relationship with reputed clients

The company has various well recognised listed companies . as its clientele. Further, the top 10 customers of the company contributed around 27% of the annual turnover during FY18, indicating a diversified clientele profile.

Comfortable capital structure and debt protection metrics

The company's capital structure improved considerably during FY18 marked by overall gearing of 0.65x as on March 31, 2018 from 2.14x as on March 31, 2017 on account of conversion of unsecured loan into equity of Rs.17.76 crore during FY18.

Further the company's debt protections parameters are also comfortable, marked by interest coverage ratio of 4.52x and long-term debt/gross cash accruals of 0.35x in FY18.

Improvement in profitability margins

The company's EBITDA and PAT margin, improved from 3.48% and 1.14% respectively in FY17 to 5.73% and 2.50% respectively in FY18, mainly on account of growth in scale of

operation coupled with commencement of operation of the re-refining unit, where the margins are higher.

Key Rating Weaknesses

Low; albeit growing scale of operation

The company's topline, though exhibited growth, continued to remain low at Rs.171.25 during FY18, with trading revenue contributing more than 50% of the total. The topline is expected to increase going forward on account of the CAPEX undertaken recently for the re-refining unit.

Susceptibility of profitability to volatility in raw material prices

The key raw materials for HELP are derivatives of crude oil. Crude oil has exhibited considerable volatility in the past on account of various reasons. Any adverse fluctuation in crude oil prices going forward may adversely impact the profitability.

Geographical Concentration

The company's decontamination operations are entirely based in the state of Gujarat, leading to some geographical concentration risk for the company, although the same is mitigated to a large extent by the level of industrialization and generation of waste in the state.

Regulatory Compliances

The company has to obtain approval from Gujarat Pollution Control Board and has to comply with its regulations. Non-adherence of the regulations could impair future prospect in the decontamination segment.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The average utilisation of fund based limits was 41.44% for the past 12 months ended October 2018, leading to some liquidity cushion. Further the company had free cash and bank balance of Rs.2.57crore as on March 31, 2018.

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About the Company

Hindustan Enviro Life Protection Services Ltd (HELP) was set up in 2012 by Mr. Ahmed Lakadia and Mr. Dipen Bankar. Initially, Mr. Ahmed Lakadia had established the company "Alka Chemi-Pack Pvt Ltd" in 2007 which was carrying on similar decontamination operation. Mr. Ahmed's father, Mr. Abubakar Lakadia, was also carrying on similar decontamination operations, although the same was on a small scale. The company commenced operation of its decontamination unit in 2013 wherein the company has been engaged in decontamination of used containers and other packing materials like barrels, drums, containers, flexi tanks, corrugated boxes etc. generated by industries at the existing manufacturing site located at Kheda. The company has also established a plant for re-refining of used lubricant oil with an installed capacity of 120 kilo liters per day at Vadgam, near Khambhat. This unit started commercial production in November, 2017. While the re-refining unit was being set up, the company was also engaged in trading of oil over the last three years, wherein it imported virgin crude base oil from countries like UAE, Saudi Arabia etc. and sold the same domestically to traders and blenders. In FY19, the company has almost ceased trading and its focus in the forthcoming years is on establishing an integrated waste management facility which treats recyclable as well as non-recyclable waste.

Financials:

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	96.62	171.25
EBITDA	3.36	9.82
PAT	1.39	4.29
Total Debt	25.88	22.88
Tangible Networth	12.06	34.10
EBITDA Margin (%)	3.48	5.73
PAT Margin (%)	1.44	2.50
Overall Gearing Ratio (x)	2.14	0.65

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term/Short Term Bank Facilities	Long Term/Short Term	46.00	IVR BBB/ Positive Outlook/ IVR A3+	--	--	--
2.	Long Term Bank Facilities (incl. proposed limit of Rs.1 crore)	Long Term	14.00	IVR BBB/ Positive Outlook	--	--	--
3.	Short Term Bank Facilities	Short Term	12.00	IVR A3+	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term/Short Term Bank Facilities	NA	NA	NA	46.00	IVR BBB/ Positive Outlook/ IVR A3+
Long Term Bank Facilities (incl. proposed limit of Rs.1 crore)	NA	NA	NA	14.00	IVR BBB/ Positive Outlook
Short Term Bank Facilities	NA	NA	NA	12.00	IVR A3+