



Press Release

Hindustan Enviro Life Protection Services Ltd

March 02, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crores)	Rating Assigned	Rating Action
1.	Long Term Facility – Fund Based – Cash Credit*	69.50 (enhanced from INR 60.00 crore)	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Re-affirmed
2.	Long Term Facility – Fund Based – WCTL	6.38	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Re-affirmed
	Total	75.88		

*including sub-limits Letter of Credit – INR23.50 crore, SBBC – INR23.50 crore, PSR – INR3.00 crore, Non Fund Based – ILC/FLC – INR46.00 crore.

Details of Facilities are in Annexure 1

Detailed Rationale

The current press release includes the addition of sub-limits to the bank facilities. The ratings of the entity continues to derive comfort from the lengthy experience of promoters in waste recycling and oil refining business, long track record and established market position in the state of Gujarat with well-established relationship with clients, consistent improvement in turnover on account of expansion of customer base and increased volumes and locational advantage while operating in a niche product segment along with y-o-y growth in memberships. However, the rating strengths are partially offset by volatile margins, geographical concentration, volatile oil prices and decline in demand of complementary goods in the near to medium term and strict regulatory compliances.



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Key Rating Sensitivities

Upward factors:

- Substantial improvement in revenue & profitability leading to sustain improvement in debt protection metrics.

Downward factors:

- Any decline in revenue & profitability leading to sustain decline in debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths

Lengthy experience of promoters in waste recycling and oil refining business

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. Mr. Ahmed's father, Mr. Abubakar Lakadia, was also carrying on similar decontamination operations, although the same was on a small scale and not as much regularized by the Government due to absence of pollution control norms. He is involved with the company at present and look after the operations of the company's Kheda unit. The promoters are well supported by a management team comprising quite a few highly qualified & experienced professionals. Mr. Mohamedanas Patel, who has completed his post-graduation in environmental science, looks after the re-refining operations at the company's Khambhat unit.

Long track record and established market position in the state of Gujarat with well-established relationship with reputed clients

The company has a long operational record in the state of Gujarat in its decontamination segment in the state of Gujarat as the company boasts of one of the highest capacity installed for decontamination services provided. The company caters to various well recognised companies like Hindustan Unilever Ltd, Arvind Ltd, Sintex Industries Ltd, Grasim Industries Ltd, BASF Industries Ltd etc. as its clientele. Due to its well established relationship, it has been able to obtain repeat orders from these parties from time to time. Further, the top 10 customers of the company contributed around 25% of the annual turnover during FY19, indicating a diversified clientele profile.



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Consistent improvement in turnover on account of expansion of customer base and increased volumes

The company top line of the company has grown steadily over the past three years with a CAGR of around 29.54% during FY17-FY19, the operating income of the company has grown by 22.80%; the growth has been supported by consistent growth in volumes and increase in customer base. Moving forward the company expects the margins to take a hit; largely due to the extension of the lockdown caused by the coronavirus outbreak due to which their revenue estimates have been lowered. As on December 12, 2019 the company has earned Rs. 117.39 crore, fulfilling 66.86% of their projected figure of Rs. 175.58 crore in FY20.

Comfortable capital structure and debt protection metrics supported by sufficient liquidity

The company has minimal long-term debt and its total debt consists almost entirely of fund based working capital. The company's debt protections parameters are also comfortable, long-term debt/gross cash accruals of 0.31 in FY19. The net-worth of the company has improved to Rs. 36.45 crore in FY19 from Rs. 34.10 crore in FY18, the TOL/TNW stands at 1.44x. The company has an above unity current ratio of 1.44x supported by cash balance of Rs. 1.46 crore. The company has minimal amounts of long term debt and their total debt consists majorly of working capital limits.

Locational advantage while operating in a niche product segment along Y-o-Y growth in memberships

Gujarat is a highly industrialized state in 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. Gujarat generates around 30% of the hazardous waste in the country. HELP operates in a niche product segment wherein it is engaged in recycling of industrial waste along with re-refining of lubricant oil which supports pricing flexibility to a certain extent. The company has seen a growth in its membership base to 159 members (The units who had entered into contract to supply contaminated material) presently (10 new additions in FY19 and 8 new additions in FY20).



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Key Rating Weaknesses

Volatility in margins

The company's EBITDA margins have declined in FY19 to 4.80% in FY19 from 5.70% in FY18, the PAT margins have also fallen to 1.12% in FY19 from 2.51% in FY18, and the sensitivity is in reaction to the fluctuations in raw material prices held by the company. The margins of the company were also affected by downturns in the global economy as demand in the automobile sector has fallen, this coupled with the decrease in the industrial output.

Geographical Concentration

The company's 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.

Volatile oil prices and decline in demand of complementary goods in the near to medium term

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. In the current scenario wherein the oil prices have been fluctuating after hitting rock bottom levels largely affected by the price war between Russia and Saudi Arabia and under the impact of the coronavirus pandemic. The markets indicate that the fortunes of downstream oil companies are unlikely to improve anytime soon with prices very unlikely to reach \$40-a-barrel. The coronavirus has dried up demand for road transports and airlines, the consumption growth of petroleum products will decline further with the nationwide lockdown extended affecting the company's operations.

Regulatory Compliances

The company has obtained approvals from Gujarat Pollution Control Board which allows them to operate their decontamination operations in Gujarat. Non-adherence of the regulations could impair future prospect in the decontamination segment.



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Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

Liquidity is adequate, with GCA of Rs. 5.68 crore as compared to their debt obligations amounting to Rs. 4.15 (including CPLTD + Interest). The company also has a current ratio of 1.44x, with a sufficient cash balance of 1.46 crore. The cash flow generation capabilities of the company is affected by the current environment, given the nationwide lockdown and closure of all forms of transport and manufacturing.

About the Group and 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.



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Financials (Consolidated)*:

For the year ended/ As On	31-03-2018	31-03-2019
	(Audited)	(Audited)
Total Operating Income	171.03	210.01
EBITDA	9.75	10.07
PAT	4.29	2.35
Total Debt	35.79	46.92
Tangible Net-worth	34.10	36.45
Ratios		
EBITDA Margin (%)	5.70	4.80
PAT Margin (%)	2.51	1.12
Overall Gearing Ratio (x)	1.05	1.29

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: India Ratings & Research in its press Release dated on November 02, 2018 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)				Rating History for the past 2 years	
		Type	Amount outstanding (INR crore)	Rating		Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19 (Feb 01, 2019)
1.	Long Term Facility –Fund Based - Cash Credit*	Long Term	69.50	IVR BBB- / Stable Outlook	IVR BBB-/ Stable Outlook (PR dated 29.05.20)	--	IVR BBB/ Positive Outlook
2.	Long Term Facility – Fund Based – WCTL	Long Term	6.38	IVR BBB- / Stable Outlook	IVR BBB-/ Stable Outlook (PR dated 29.05.20)	--	--

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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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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Facility – Fund Based - Cash Credit*	NA	NA	Revolving	69.50	IVR BBB-/ Stable Outlook
Long Term Facility – Fund Based – WCTL	NA	NA	Upto September 2020	6.38	IVR BBB-/ Stable Outlook

*including sub-limits Letter of Credit – INR23.50 crore, SBBC – INR23.50 crore, PSR – INR3.00 crore, Non Fund Based – ILC/FLC – INR46.00 crore.