

Antony Waste Handling Cell Ltd

Price Band ₹ 313-315

December 22, 2020

Founded in January 2001, Antony Waste Handling Cell (AWHC) is one of the top five players in the Indian municipal solid waste (MSW) management industry with an established track record of more than 19 years. The company is a pioneer in MSW providing a full spectrum of services, which includes solid waste collection, transportation, processing and disposal services. AWHC is also one of the key players in landfill construction and management sector with in-house expertise on construction and management of landfills.

Strong operational portfolio

The company primarily undertakes specialised MSW collection & transportation (C&T) projects, MSW processing projects and mechanised sweeping projects for municipalities and private players. Having undertaken more than 25 projects as of November 15, 2020, of which 18 are ongoing, Antony has demonstrated a track record of a comprehensive service provider equipped with the resources to handle large-scale projects for municipalities and private players. Its portfolio of 18 ongoing projects as on November 15, 2020, comprises 12 MSW C&T projects, two MSW processing project and four mechanised sweeping projects. Antony's project portfolio is diversified across services provided, counterparties, project duration, nature of contracts and geographical areas where it operates.

Diversifying in emerging waste management areas

With increasing energy demand and government initiatives, the waste to energy (WTE) market is anticipated to see more public private partnership (PPP) based projects. AWHC believes that with assured raw material and a power offtake agreement, the business offers limited risks and will help in improving predictability of its cash flows. The company, through its step-down subsidiary ALREPL, has been awarded a contract for setting up and operating a WTE plant having a capacity of up to 1,000 TPD by Pimpri Chinchwad Municipal Corporation (PCMC).

Key risk & concerns

- High dependence on municipal corporation
- Working capital intensive business
- High customer concentration

Priced at P/E of 13.6x (post issue) FY20 on upper band

AWHC reported revenue, EBITDA & PAT growth CAGR of 27.7%, 34.2% & 27.9%, respectively, in FY18-20. The company has maintained healthy return ratios that were upwards of 20%+ in the last three years. The Indian waste management industry is still at a nascent stage with a huge headroom for growth. Experienced promoters with strong domain expertise and focus on improving operational expertise would help AWHC tap the growing market of MSWM. The stock is available at 13.6x FY20 PE on a post issue basis at the upper band.

Key Financial Summary

(₹ Crore)	FY18	FY19	FY20	H1FY21	CAGR (FY18-20)
Revenue	276.1	283.7	450.5	207.4	27.7%
EBITDA	69.7	76.2	125.6	51.9	34.2%
EBITDA margin (%)	25.3	26.9	27.9	25.0	
Net Profit	39.9	51.2	65.3	29.1	27.9%
EPS (₹)	22.5	20.4	27.5	7.7	
P/E (x)	14.0	15.5	11.5		
EV/EBITDA	13.5	12.8	8.0		
RoCE (%)	28.5	23.1	26.5		
RoE (%)	33.2	23.1	31.0		

Source: ICICI Direct Research, RHP

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Particulars

Issue Details

Issue Opens	21/12/2020
Issue Closes	23/12/2020
Issue Size	~₹300 crore
Issue Type	Fresh Issue/ Offer for sale
Price Band	₹313 - ₹315
No of shares	~0.95 crore
Market Lot	47 shares
Face Value	5.0

Shareholding

Shareholding	Pre-offer	Post-offer
Promoter	51.1	46.2
Public	48.9	53.8
Total	100.0	100.0

Objects of issue

- Part financing for PCME WTE Project through investment in subsidiaries
- Reduction in consolidated borrowings by infusing debt in subsidiary

Research Analyst

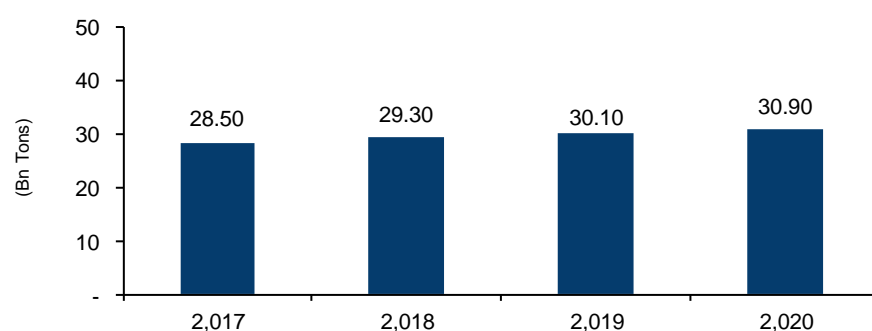
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Industry Overview

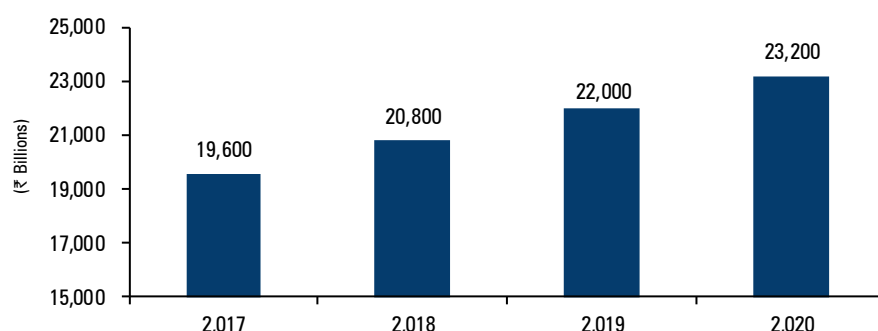
The global waste generation levels in volume terms are estimated to be around 30.1 billion tonnes (BT) in 2019 and is expected to reach 30.9 BT in 2020. The same translates into a market size of ₹ 23200 billion for global waste management services for 2019. Municipal waste generation is largely influenced by economic development, local climate, level of industrialisation and public habits. Waste composition of any country is also directly influenced by factors such as economic development, climate (geography) and culture. Waste composition in developed countries typically has higher share of inorganic materials such as plastic, aluminium, etc, compared to organic materials. Also, climate or geography influences waste composition such as ash content (primarily from household heating) or building material (wood vs. steel). Further, waste processing technologies adopted vary according to a country's income level. For example, in a high income country such as Denmark, WTE and recycling technology are widely used whereas in a low to middle income country such as Morocco open dumping is widely prevalent.

Exhibit 1: Global waste management industry by volume



Source: Frost & Sullivan Analysis, RHP, ICICI Direct Research

Exhibit 2: Global waste management industry by value

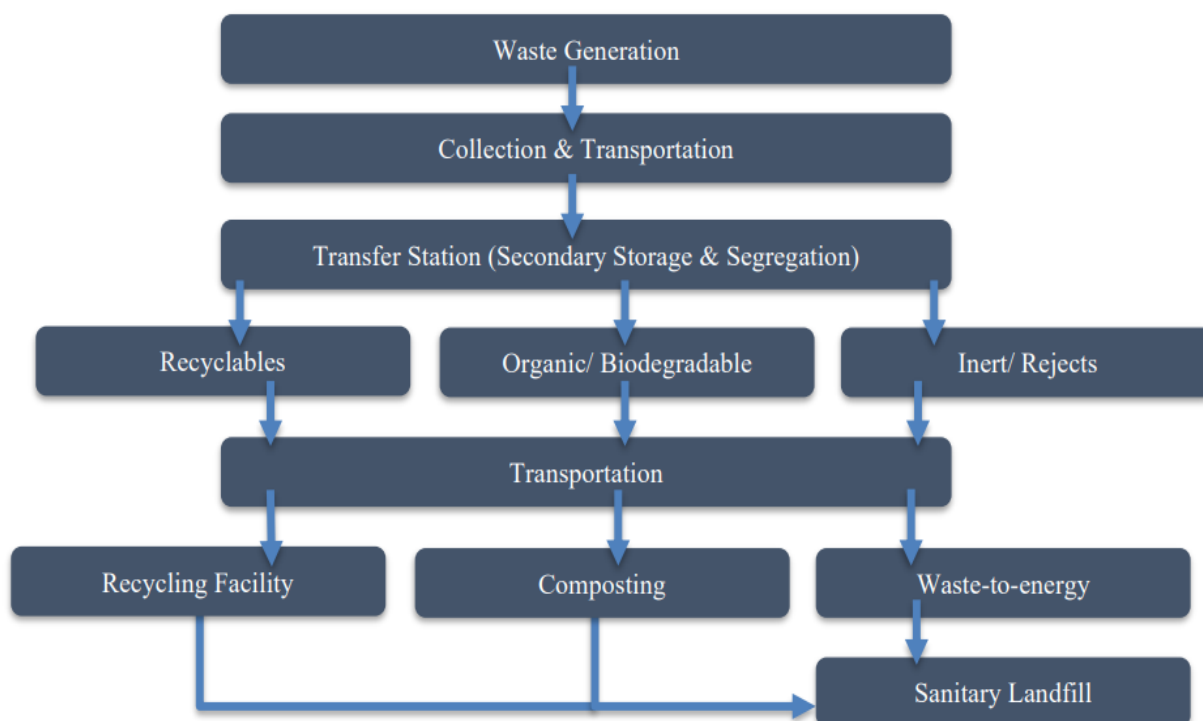


Source: Frost & Sullivan Analysis, RHP, ICICI Direct Research

Indian waste management industry

The Municipal waste management industry in India is pegged at ₹ 5000 crore and is expected to grow at a CAGR of 14.4% till FY25 reaching ₹ 9800 crore. Municipal solid waste (MSW) in India generally consists of compostable/biodegradable, recyclables and inerts. Compostable/biodegradable/organic items are food waste, from households, retail/wholesale markets and institutions such as hotels and restaurants, which account for around 48% of the overall waste composition. Recyclables include paper, plastics, metal, glass and account for 19% of the total MSW composition while the balance 33% comprises inert waste. Currently, around 85-90% solid waste generated in India is being collected and transported of which 30-35% gets processed.

Exhibit 3: Value chain of waste management



Source: Frost & Sullivan Analysis

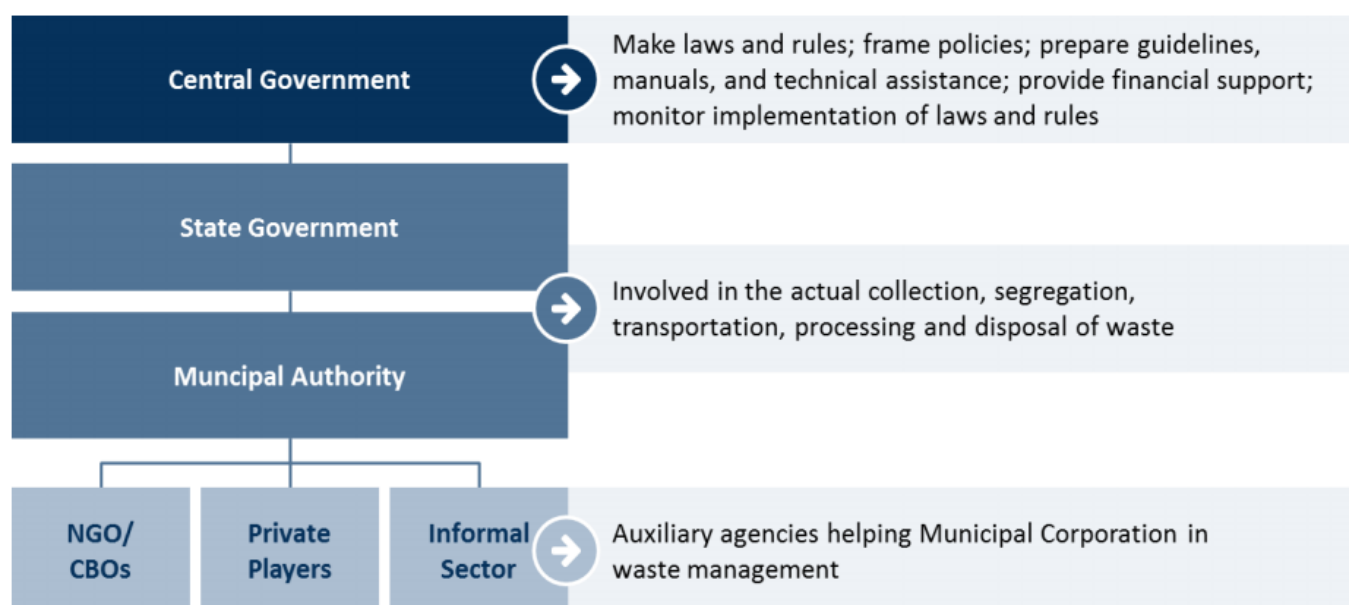
Source: Frost & Sullivan Analysis, RHP, ICICI Direct Research

The value chain of MSW starts with waste generation followed by collection/transport/storage/processes by waste handlers & waste management companies. Waste processing facilities produce compost from organic matter and refuse-derived fuel (RDF) from recyclable materials. RDF is used as a fuel source in cement kilns or other facilities where boilers are used to burn RDF as fuel and generate power. Rejects from compost, RDF and waste-to-energy plants are eventually sent to landfills. Cities that currently have more than 50% waste segregation done at source are expected to be immediate key markets for upcoming RDF plants. As Indian cities continue to improve waste segregation at source, viability of RDF technology will improve and more RDF plants are expected to come online.

Institutional framework for solid waste management in India

Exhibit 4: Waste to heat energy plants in India

Institutional framework for solid waste management in India



Source: MNRE, Frost & Sullivan Analysis, RHP

Waste to energy plants in India

Waste to energy (WTE) plants are also being explored across India. WTE plants are particularly suitable for cities with population of more than 10 lakh producing more than 300 TPD of waste. As of December 2019, India has around five such plants based on municipality solid waste that are operational with around 66.5 MW of power generation capacity.

Exhibit 5: Waste to heat energy plants in India

Company	Location	Waste Processing Capacity (TPD)	Installed Capacity (MW)	WTE Technology
Antony Lara Enviro Solutions	Mum bai, Maharashtra	4000	0.50	Bio-reactor
Ramky Enviro	Narela-Bawana, Delhi	2000	24.00	Incineration
Jindal Urban Infrastructure	Okhla, Delhi	2000	16.00	Incineration
Solapur Bio-energy Systems	Solapur, Maharashtra	400	3.00	Bio-methanation
Elephant Energy	Shimla, HP	100	1.75	RDF

Source: MNRE, Frost & Sullivan Analysis, RHP

Company background

Founded in January 2001, Antony Waste Handling Cell (AWHC) is one of the top five players in the Indian MSW management industry with an established track record of more than 19 years. The company is a pioneer in MSW providing the full spectrum of services, which includes solid waste collection, transportation, processing and disposal services. AWHC is also one of the key players in the landfill construction and management sector with in-house expertise in construction and management of landfills.

AWHC has undertaken more than 25 projects as on November 15, 2020, of which 18 are ongoing. Of the 18 projects, 12 comprise MSW C&T projects, two MSW processing projects and four mechanised sweeping projects. The company is currently undertaking projects for Municipal Corporation of Greater Mumbai (MCGM), Navi Mumbai Municipal Corporation (NMMC), Thane Municipal Corporation (TMC), North Delhi Municipal Corporation, etc.

Currently the company owns a fleet of 1147 vehicles, of which 969 are equipped with GPS technology, which allows it to operate more efficiently. AWHC procures components for its vehicles and equipment mostly from leading international suppliers, which includes Compost System GmbH.

Exhibit 6: Highlights over the years

No.	Project Name	MSW C&T	Mechanized Sweeping	MSW Processing
1	Thane Project	Yes	-	-
2	Navi Mumbai Project	Yes	-	-
3	Mangalore Project	Yes	Yes	-
4	Greater Noida Project-Zone 1	Yes	Yes	-
5	Greater Noida Project- Zone 2	Yes	Yes	-
6	Jaypee Project	Yes	-	-
7	North Delhi Project	Yes	-	-
8	Dahisar Project	Yes	-	-
9	Pimpri Chinchwad Municipal Corporation – South Zone Project	Yes	-	-
10	Nagpur Municipal Corporation Project	Yes	-	-
11	New Okhla Industrial Development Authority ("Noida") Project	Yes	-	-
12	Varanasi Project	Yes	Yes	-
13	Navi Mumbai Sweeping Project	-	Yes	-
14	Greater Noida Sweeping Project #1	-	Yes	-
15	Greater Noida Sweeping Project #2	-	Yes	-
16	Greater Noida Sweeping Project #3	-	Yes	-
17	Kanjur Project	-	-	Yes
18	Pimpri Chinchwad Municipal Corporation Project	-	-	Yes

Source: RHP, ICICI Direct Research

Exhibit 7: MSWM competitive service mapping

Player	Collection & Transportation	Treatment & Disposal	Landfills
Ramky Enviro Engineers	Yes	Yes	Yes
Antony Waste	Yes	Yes	Yes
Metro Waste handling Pvt Ltd	Yes	Yes	No
BVG	Yes	Yes	Yes
A2Z	Yes	Yes	No
SPML Infra	Yes	Yes	No
Terra Firma	Yes	Yes	No
Essel Group	Yes	Yes	No

Source: Frost & Sullivan Analysis

Investment Rationale

Leading service provider in MSW management sector with end-to-end capabilities

AWHC is one of the top five players in the Indian MSW management industry with an established track record of more than 19 years, providing a full spectrum of MSW services, including solid waste collection, transportation, sweeping, processing and disposal services across the country, primarily catering to Indian municipalities. It is among the key players in sanitary and bio-reactor landfill construction and management sector with in-house expertise in landfill construction along with its management. It is also present in the emerging waste management areas in India such as MSW based WTE. It has developed internal capabilities across various stages of solid waste management projects, commencing from collection to disposal, which has enabled it to grow into a comprehensive service provider. In addition to significantly expanding the scale and scope of its operations, the company has enhanced its geographic footprint across India.

Strong track record of project execution

The company primarily undertakes specialised MSW C&T projects, MSW processing projects and mechanised sweeping projects for municipalities and private players. Having undertaken more than 25 projects as of November 15, 2020, of which 18 are ongoing, AWHC has demonstrated its track-record as a comprehensive service provider equipped with the resources to handle large-scale projects for municipalities and private players. A combination of its efficient and systematic project management and execution skills has helped the company establish a reputation as one of the key players with end-to-end capabilities to execute a host of MSW management projects.

Diversified business model

In this industry, the number, size and duration, of simultaneously ongoing projects is considered an indicator of future performance since they provide an indication of anticipated future revenue. Its portfolio of 18 ongoing projects as on November 15, 2020, comprises 12 MSW C&T projects, two MSW processing project and four mechanised sweeping projects. AWHC's project portfolio is diversified across services provided, counterparties, project duration, nature of contracts and geographical areas where it operates. Its project contracts also have different time periods. Thus, they expire at different times, giving it a staggered revenue stream. By diversifying its internal capabilities and ongoing project portfolio across multiple municipalities with favourable dynamics, the company is able to pursue a broader range of projects in urban or semi-urban areas with limited counter-party risk and, therefore, optimises its business volume and operating margins.

Access to technology backed vehicles, equipment enables efficient operations management

The company has consistently invested in its fleet of vehicles. As of November 15, 2020, AWHC owns a fleet of 1,147 vehicles, of which 969 were equipped with GPS technology, which allows it to operate its projects efficiently. The active monitoring system through use of GPS enables it to retain optimal utilisation as well as maintain its vehicles. It also ensures hassle-free operations and leads to efficiency of the vehicle fleet, thus reducing overall transportation costs. The company has also invested in automation in various facets of its operations, including for its MRF, waste segregation and WTE plants, which has allowed it to increase its operational efficiency compared to manual operations.

Experienced promoters, management team with strong domain expertise

AWHC's individual promoters, namely Jose Jacob and Shiju Jacob, with an experience of more than 19 years in the solid waste management industry, have been associated with the company since its incorporation. Further, two of its promoters also serve as whole time directors on the Board and have been intrinsically involved in its business operations. The company has a qualified key management team, with diversified experience in the areas of operations, logistics, marketing and finance, which assists the Board in implementing business strategies and furthering growth. AWHC will continue to leverage the experience of its promoters and management team and their understanding of the solid waste industry, to take advantage of current and future market opportunities.

Capitalise on growth opportunities in MSW management sector by continued focus on bidding for MSW projects

The MSW management market is estimated at ₹ 5000 crore for FY20 and is expected to reach ₹ 9800 crore by FY25 at a CAGR of 14.4%. MSW generation is expected to grow at a CAGR of 8.9% (FY20-25) to reach 115 million TPA by FY25. As per the report from Frost & Sullivan, only 30-35% of municipal solid waste generated in India gets processed. Swachh Bharat Mission aims to achieve 100% collection, transportation, processing and disposal of municipal waste across 4,041 cities/towns in the country. The company is looking to leverage its past experience, financial strength, acumen and resultant credentials to make it eligible to bid for most projects that come up for bidding in the MSW management sector.

Continue with rational selection of projects, strategically expand geographical footprint

AWHC's experience in operating multiple project sites, existing presence across various geographies and service verticals combined with in-depth understanding of operating efficiencies, cost pressures & regulatory landscape and law & order situation for prospective customers will help it in scientific selection of projects and calibrated growth by avoiding projects that may require significant investments in vehicles or manpower or which may prove to be economically unviable. The company has undertaken/currently undertaking projects in multiple states/union territories in Maharashtra, Uttar Pradesh, Delhi, Karnataka, Rajasthan, Haryana and Punjab. The company will continue to focus on geographically clustering its projects to further improve its business and financial performance.

Traditionally in India, municipal waste management services have been controlled by relevant municipal corporations with only 30-35% being managed by professional waste management players. While, the trend toward privatisation has grown slowly since 2013, with the Central Government's push (through Swachh Bharat and Smart City Mission) more and more municipalities are expected to move towards privatisation in coming years. AWHC's future growth will depend on how successfully it undertakes its projects in other states and clusters the existing and new projects to achieve optimal efficiency and profitability.

Moving up MSW value chain by diversifying into emerging waste management areas

With increasing energy demand and government initiatives, the WTE market is anticipated to see more public private partnership (PPP) based projects. The company believes that with assured raw material and a power offtake agreement, the business offers limited risks and will help in improving predictability of its cash flows. AWHC, through its step-down subsidiary ALREPL, has been awarded a contract for setting up and operating a WTE plant having a capacity of up to 1,000 TPD by PCMC.

AWHC is currently engaged in bio-mining at its Kanjurmarg site, as this forms an integral part of its bio-reactor landfill. As per Frost & Sullivan Analysis, there is huge scope for bio-mining projects since most of metro, tier 1 and tier 2 cities have dumping sites with 15+ years and need to clear the legacy waste for new waste dumping in the site, which will attract more organised companies to invest in bio-mining projects across India.

Continues to focus on enhancing operational efficiency

AWHC intends to continue to focus on improving its project execution and operational efficiencies in order to maintain its credentials as well as profit margins. It attempts to utilise advanced vehicles, equipment and technologies as well as project management tools to increase productivity and maximise asset utilisation. The company will also continue to invest in new equipment and vehicles, manpower resources and training to improve its ability to execute its projects with quality and efficiency. AWHC intends to continue upgradation of its information & communication technology infrastructure and other internal processes to reduce manual intervention and improve reliability, efficiency of its business and operations.

Key Risks & Concerns

High dependence on municipal corporations

AWHC is highly dependent on municipal authorities as a large portion of business is entirely dependent on municipal corporations. Of the 18 ongoing projects, 17 have been awarded by municipal corporations. Going ahead, this trend is expected to continue as waste management services in India are controlled by relevant municipal corporations. Any adverse changes in municipal policies, expenditures or fund allocations may lead to agreements being restructured or renegotiated or terminated and could materially and adversely affect business, financial condition and results of operation.

Working capital intensive

The company operates in a working capital intensive industry. The cleaning of waste requires the company to employ large numbers of workers, whereas the collection, sweeping, storage, transportation, disposal and processing requires the deployment of heavy transport vehicles, which entail transportation and fuel costs. Further, significant amounts of capital are required towards financing the purchase of vehicles, materials and equipment. Similarly, the processing units of the company entail electricity and other fuel costs. In addition, a portion of the contract value, generally 5% or more of the value of the contract, is withheld by the client as security deposit / performance security and is released only upon the evaluation of the work or the completion date. AWHC's working capital requirements will increase as they seek to expand their businesses.

Customer concentration

The company derives a significant portion of its topline from a limited number of customers. A substantial portion of the company's business contracts are with municipal authorities. Thus, they derive a high proportion of revenues from a small number of customers. The top five clients contributed 90.78%, 93.70%, 81.76% and 77.55% of total revenue in FY18, FY19, FY20 and H1FY21, respectively.

Impact of Covid-19

On account of Covid-19, MSW tonnage has seen a significant decline mainly due to the closure/partial closure of commercial & industrial activities. The company has made various applications to various municipal authorities with respect to the compensation to be received for the period under lockdown. While MCGM has passed an order to make payments on minimum average tonnage for certain period in case of actual tonnage collection being lower than the minimum average tonnage subject to certain conditions, there can be no assurance that other municipalities will also pass such an order. Further Covid-19, can threaten the safe operation of the company's facilities and cause disruption of operational activities, environmental harm, loss of life, injuries and impact the wellbeing of employees.

Financial summary

Exhibit 8: Profit and loss statement					₹ crore
(₹Crore)	FY18	FY19	FY20	H1FY21	
Revenue	276.1	283.7	450.5	207.4	
% YoY Growth	-	2.7	58.8	(54.0)	
Other Income	14.6	14.8	14.1	7.7	
Total Revenue	290.8	298.5	464.6	215.1	
Cost of materials cons	36.3	31.8	39.0	10.6	
Change in inventories	(0.0)	(0.0)	(0.0)	0.0	
Employee cost	64.0	66.3	114.9	73.7	
Other Expenses	106.2	109.4	171.1	71.2	
Total expenditure	206.4	207.5	325.0	155.5	
EBITDA	69.7	76.2	125.6	51.9	
% YoY Growth	-	9.2	64.8	(58.7)	
Interest	22.9	25.0	30.2	14.2	
Depreciation	12.7	18.3	24.2	15.5	
PBT	48.8	47.7	85.2	29.9	
Tax	8.9	13.0	19.9	0.9	
PAT	39.9	34.7	65.3	29.1	
% YoY Growth	-	(13.0)	88.3	(55.5)	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(₹Crore)	FY19	FY20	H1FY21		
Profit after Tax	34.7	65.3	29.1		
Depreciation	18.3	24.2	15.5		
Interest	25.0	30.2	14.2		
Other income	(14.8)	(14.1)	(7.7)		
Prov for Taxation	13.0	19.9	0.9		
Change in Working Capital	(35.6)	(24.1)	6.7		
Taxes Paid	(9.8)	(18.3)	(1.9)		
Cashflow from Operations	30.8	83.2	56.7		
(Purchase)/Sale of Fixed Assets	(60.2)	(108.7)	(6.1)		
(Purchase)/Sale of Investments	-	-	-		
Other Income	14.8	14.1	7.7		
Cashflow from Investing	(45.3)	(94.6)	1.6		
Issue/(Repayment of Debt)	25.1	40.5	(16.6)		
Changes in Minority Interest	7.3	19.8	9.4		
Changes in Networth	(4.4)	(5.2)	(9.6)		
Interest	(25.0)	(30.2)	(14.2)		
Others	-	-	-		
Cashflow from Financing	2.9	24.8	(30.9)		
Changes in Cash	(11.6)	13.4	27.4		
Opening Cash/Cash Equivalent	33.7	22.0	35.5		
Closing Cash/ Cash Equivalent	22.0	35.5	62.9		

Source: RHP, Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore
(₹ Crore)	FY18	FY19	FY20	H1FY21	
Share Capital	1.3	7.2	12.8	12.8	
Reserves & Surplus	119	143	198	217	
Total Shareholders fund	120	150	210	230	
Minority Interest	49.1	56.3	76.1	85.5	
Total Long term debt	83	108	148	132	
Deferred tax liability (net)	8.4	11.6	13.2	12.1	
Total Liabilities	260	326	448	459	
Net Block	41	61	140	130	
Capital WIP	-	15.1	0.6	2.1	
Investments	-	-	-	-	
Inventory	0	0	0	0	
Sundry debtors	73	89	113	110	
Cash	34	22	35	63	
Loans & Advances	7.4	4.1	6.7	5.9	
Other current assets	167	209	243	265	
CL& Prov.	168	187	224	248	
Net Current Assets	113	137	175	195	
Total Assets	260	326	448	459	

Source: RHP, ICICI Direct Research

Exhibit 11: Key ratios					
(Year-end March)	FY18	FY19	FY20	H1FY21	
EPS	22.5	20.4	27.5	7.7	
BV *	918.3	105.1	82.3	89.9	
EBITDA Margin	25.3	26.9	27.9	25.0	
PBT / Net Sales	20.7	20.4	22.5	17.5	
PAT Margin	14.4	12.2	14.5	14.0	
Inventory days	0	0	0	0	
Debtor days	96	114	92	194	
Creditor days	194	201	146	346	
RoE	33.2	23.1	31.0	12.6	
RoCE	28.5	23.1	26.5	9.9	
RoIC	47.2	32.9	36.3	13.8	
P/E	14.0	15.5	11.5	-	
EV / EBITDA	13.5	12.8	8.0	18.5	
EV / Net Sales	3.4	3.4	2.2	4.6	
Market Cap / Sales	3.2	3.1	2.0	4.3	
Price to Book Value	0.3	3.0	3.8	3.5	
Debt/EBITDA	1.2	1.4	1.2	2.5	
Net Debt / Equity	0.4	0.6	0.5	0.3	
Current Ratio	1.5	1.6	1.6	1.5	
Quick Ratio	1.5	1.6	1.6	1.5	

* During FY19, the equity shares of FV ₹ 10 were split and FV was subsequently revised to ₹ 5 per share. Further, bonus issue of 4 shares for 1 was also made during the year. Source: Company, ICICI Direct Research

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