

Antony Waste Handling Cell

Rating: Avoid | Price Band: Rs295-300

March 3, 2020

IPO Note

IPO Fact Sheet

Opening Date	4 th March '20
Closing Date	6 th March '20
BRLMs	Equirus Capital Pvt. Ltd.
Issue Size	Rs2025.7mn (lower band) / Rs2060mn (upper band)
Numbers of shares offered (Net)	6.9mn
Post issue number of shares	26.8mn
Face value	Rs5
Bid lot	50 shares

Issue Structure

QIB	Not more than 50% of the net offer
NIB	Not less than 15% of the Offer
Retail	Not less than 35% of the Offer

Issue Details

Pre-issue equity (m shares)	25.6
Post-issue equity (m shares)	26.8
Post-issue Market Cap (Rs bn)	Rs7.9/ Rs8.0

Object of the Issue

The Issue comprises a Fresh Issue and an Offer for Sale. New proceeds of the fresh issue are proposed to be utilized for:

1. Reduction of the aggregate consolidated outstanding borrowings of the company
2. General corporate purposes

Shareholding Pattern

(%)	Pre-Issue	Post-Issue
Promoters	51.1%	48.9%
Public & Others	48.9%	51.1%

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Expensive given untested business model

We recommend an AVOID rating on Antony Waste Handling Cell Ltd (AWHCL) IPO issue given factors like low revenue (~7.7% CAGR) and PAT (16.5% CAGR) growth over FY16-19, highly competitive local markets, national and international players, large dependency on projects from State government authorities primarily Municipal Corporations (unstable allocation of MSW management) and rich valuation (23.3x FY19 vs Infra coverage universe has an average of ~19x; however there are no listed peers to facilitate comparison). AWHCL is an emerging player providing full spectrum of Municipal Solid Waste (MSW) management services with a diversified project portfolio across segments, geographies and clientele. It is one of the top five players in the Indian MSW management industry with the resources to handle large-scale projects for municipalities and private players. Over FY16-19, AWHCL's revenues/ EBITDA/ Adj.PAT have grown at a CAGR of 7.7%/7.3%/16.5% respectively. At the upper end of the price band, the issue is trading at a P/E of 23.3x and an EV/EBITDA of 12.4x as on FY19 earnings.

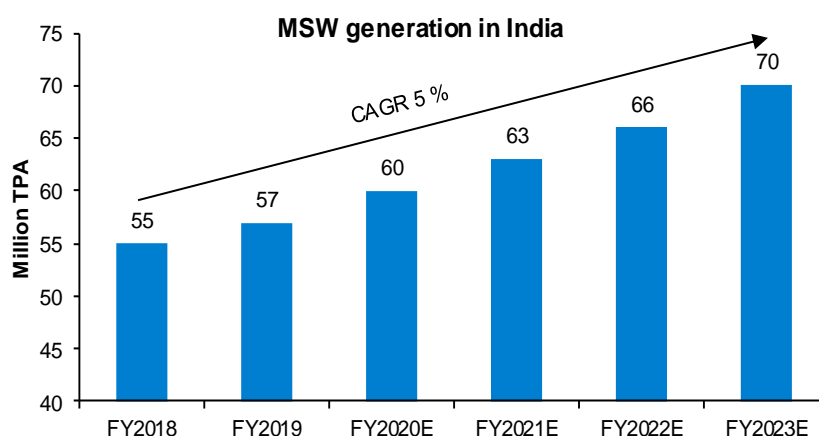
- Growing MSW market in India offers huge opportunities:** The Indian Waste Management Services market is in its growth stage with increasing urbanization being a driving factor. Other factors such as changing lifestyle patterns and increasing disposable incomes have also contributed in rising waste generation.
- Strong track record of project implementation in MSW space:** AWHCL is one of the top five players in the Indian MSW management industry providing full spectrum of MSW services that include solid waste collection, transportation, sweeping, processing and disposal services across the country, primarily catering to Indian Municipalities.
- Various government schemes and reforms implemented:** Swachh Bharat Mission and Smart City Mission coupled with government subsidies for projects such as Waste-to-Energy (WTE), have been key drivers to increase private-sector participation in the sector.
- Well-diversified portfolio of projects:** Amongst AWHCL's portfolio of 17 ongoing projects as on 1st Jan '20, 11 comprised of MSW C&T projects, 2 comprised of MSW processing project and balance were mechanized sweeping projects. Further the portfolio is well diversified across a) services provided, b) counterparties, c) project duration, d) nature of contracts and e) geographical areas.
- Moving up the MSW value chain:** Based on estimates from Standing Committee on Energy, Ministry of New and Renewable Energy, India's waste-to-energy potential is expected to be enhanced to 1,075MW by 2031 and 2,780MW by 2050. Hence, WTE segment offers huge potential in the long run. The company intends to continue to bid for commercially viable WTE projects from financially strong municipalities and private players

Investment Thesis

Growing MSW market in India offers huge opportunities:

The Indian Waste Management Services market is in its growth stage with increasing urbanization being a driving factor. Other factors such as changing lifestyle patterns and increasing disposable incomes have also contributed in rising waste generation. As per Frost & Sullivan report dated Aug'18, **MSW generation in India is expected to grow at 5% CAGR (over FY18-23E) from 55mnTPA in FY18 to 70mnTPA by FY23.**

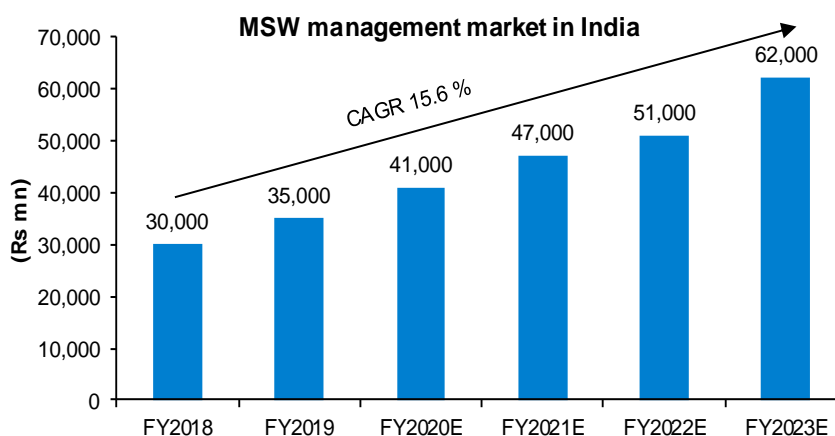
Exhibit 1: MSW generation in India is expected to grow at 5% CAGR



Source: Company, PL

The Management market of Indian MSW is estimated to grow at 15.6% CAGR from Rs30bn in FY18 to Rs62bn in FY23E. We believe growing urbanization along with influx of rural population, rising standard of living that demand quality services and living spaces, stringent environmental regulations and increasing awareness on ill effects of improper solid waste disposal has led to increased participation of professional players in collection and transportation services. It has also developed scientific recycling and disposal methods for better management of MSW, which eventually act as a key driver for the market.

Exhibit 2: Management market of MSW is estimated to grow at 15.6% CAGR



Source: Company, PL

Management believes that its past experience, financial strength, acumen and resultant credentials will make it eligible to bid for most projects that come up for bidding in the MSW management sector.

Strong track record of project implementation in MSW space:

AWHCL is one of the top five players in the Indian MSW management industry providing full spectrum of MSW services that include solid waste collection, transportation, sweeping, processing and disposal services across the country, primarily catering to Indian Municipalities. **Having undertaken more than 25 projects as of 01 January'20, being in the industry for ~2 decades and executing a host of complex municipal solid waste management projects, the company has demonstrated a track-record as most comprehensive service provider equipped with resources to handle large-scale projects for municipalities and private players.**

Various government schemes and reforms implemented:

Lately, government has announced various schemes to improve the standards of waste management in India. **Swachh Bharat Mission and Smart City Mission coupled with government subsidies for projects such as Waste-to-Energy (WTE), have been key drivers to increase private-sector participation in the sector.** Swachh Bharat Mission aims to achieve 100% collection, transportation, processing and disposal of municipal waste across all the major cities/towns in the country. Also, Smart City Mission is facilitating local municipalities in adopting smart technologies (e.g. RFID and GPS) in city's integrated waste management system.

MoEF has revised all Waste (Management & Handling) Rules in 2016 with further amendments to ensure greater accountability and effective implementation of waste management. Rules lays clear guidelines for various Municipal Corporations with regards to waste collection, storage, segregation, transportation, processing and its disposal. **With various reform initiatives and policy implemented along with opportunities of wealth recreation from under-utilized resources in the waste streams through reuse, recovery, and recycling has led to attraction of private participation.**

PPP (Public Private Partnership) is perceived as a solution to various issues faced by the municipalities such as funding, technology, manpower etc. In the initial stages, PPP were limited to street sweeping, collection and transportation. **Slowly and steadily the PPP contracts are expanding to waste processing & treatment, WTE and safe disposal of waste wherein any company like AWHCL is expected to be a major beneficiary.**

Well-diversified portfolio of projects:

Amongst AWHCL's portfolio of 17 ongoing projects as on 1st Jan '20, 11 comprised of MSW C&T projects, 2 comprised of MSW processing project and balance were mechanized sweeping projects. Further the portfolio is well diversified across a) services provided, b) counterparties, c) project duration, d) nature of contracts and e) geographical areas. The revenues across all its projects are based on rates agreed-upon while commencing the project for a specific period under the contract and actual work undertaken. **Most of the project contracts have different time periods, and thus their expiration is at different times. This de-risks the company's business model and leads to staggered revenue stream.**

Moving up the MSW value chain:

With increasing energy demand and government initiatives, waste-to-energy market is anticipated to see more PPP based projects. Based on estimates from Standing Committee on Energy, Ministry of New and Renewable Energy, **India's waste-to-energy potential is expected to be enhanced to 1,075MW by 2031 and 2,780MW by 2050. Hence, WTE segment offers huge potential in the long run.**

The Company, through its step-down subsidiary Antony Lara Renewables Energy Private Ltd (ALREPL), has been awarded a contract for setting up and operating a WTE plant by PCMC. Further, AWHCL's subsidiary Antony Lara Enviro Solutions Private Ltd (ALESPL) has been operating a 0.4 MW landfill gas-to-energy plant at Kanjurmarg facility since the year 2014, with electricity being produced used for internal consumption. **The company intends to continue to bid for commercially viable WTE projects from financially strong municipalities and private players.**

Company Overview

AWHCL started with a simple business of collection and transportation of waste and has now established a track record of 19 years in providing full spectrum of MSW services that include solid waste collection, transportation, processing & disposal services, along with landfill construction and emerging waste management area like MSW based Waste-to-Energy (WTE). It is amongst a selected few who have pioneered in MSW collection & transportation and **is one of the top five players in Indian MSW management industry. AWHCL has been adopting latest technologies and innovations** in garbage compaction, processing, use of transfer stations and managing sanitary engineered landfills thereby making it an exceptional company in India that can manage MSW through multiple technologies.

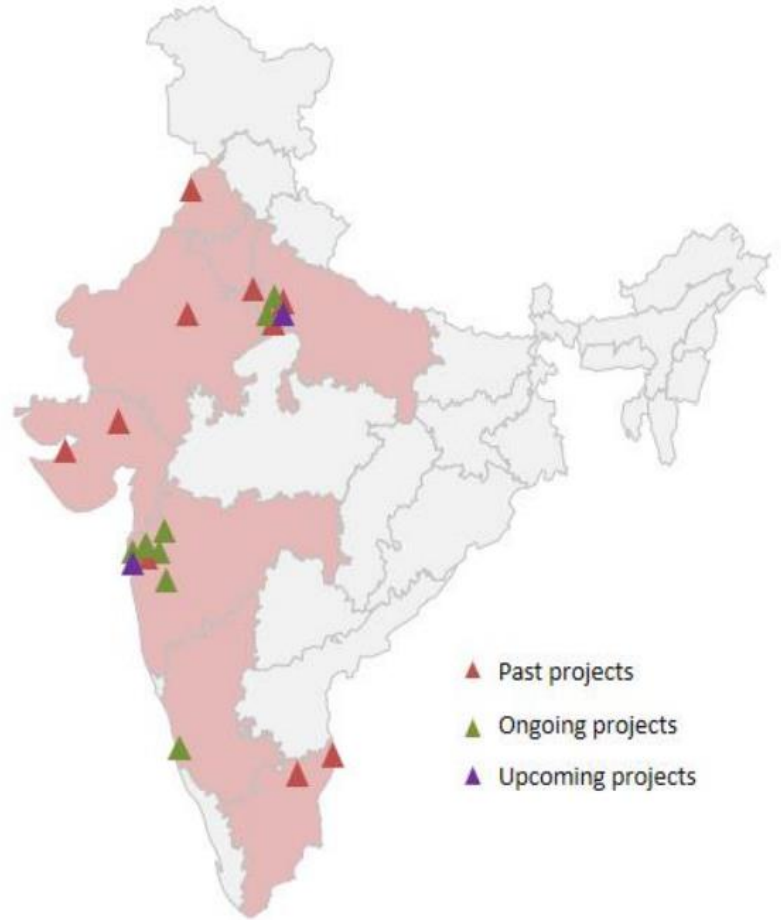
Current ongoing projects include 11 MSW C&T projects, 2 MSW processing projects and 4 mechanized sweeping projects which is carried on by AWHCL itself and/or through its subsidiaries. Most of the C&T and sweeping contracts are within a term of more than 7 years whereas the MSW processing project has a residual term of 15 years plus, which gives a comfortable revenue visibility over the next few years.

The company's biggest project - MSW processing site at Kanjurmarg is Asia's largest single location waste processing site, located in Mumbai with a capacity of handling 7,000 TPD MSW. AWHCL was awarded Kanjurmarg landfill project by MCGM in FY10. The project involves, inter alia, design, construction, operation and maintenance of integrated waste management facilities on DBOOT basis. It is being undertaken by Antony Lara Enviro Solutions Private Ltd (ALESPL), a JV between AWHCL and Lara Central De Tratamento De Residuos Limited. As on 30th Nov' 18, the site has a bio-reactor landfill with a capacity of 3,000 TPD, and a sanitary landfill of 250 TPD. Moreover, the site also has a material recovery and compost facility with a capacity of 1,000 TPD. At the same time, the company had processed approximately ~42mn tons of waste at its Kanjurmarg site since Fiscal 2010. The company witnessed a significant increase in the waste processed at Kanjur project, having processed ~64% more MSW in Kanjur in 2019 than in 2018 which is expected to increase further in CY20. Also, as on 30th Nov' 18 its subsidiary ALESPL has been operating a 0.4 MW landfill gas-to-energy plant at Kanjurmarg facility since 2014 with the electricity produced being used for internal consumption.

As of 01 January '20 the company had a fleet of 1089 vehicles. The vehicle ownership gives the company a competitive advantage and helps it meet the service level commitments in a cost-effective manner. Given the nature of the contracts, the company actively monitors movement of its huge vehicle fleet which are equipped with GPS system.

Geographical Footprint: Starting with Mumbai, AWHCL has undertaken/ currently undertaking projects in multiple cities including Delhi, Jaipur, Gurugram, Greater Noida, Noida, Amritsar, Mangalore, Navi Mumbai and Thane.

Exhibit 3: AWHCL has its presence across the country



Source: Company, PL

Key municipalities that AWHCL has worked with includes Municipal Corp of Greater Mumbai, Navi Mumbai Municipal Corp, Pimpri Chinchwad Municipal Corp, Mangalore Municipal Corp, Nagpur Municipal Corp, Greater Noida Industrial Development Authority and Municipal Corp of Delhi.

Key risks

Any decline in the budgetary allocation towards MSW projects can adversely affect business

The company is dependent on municipal authorities for a substantial proportion of its business and revenue. **Many Municipalities have been struggling to fund various solid waste management projects from their own revenue receipts and are highly dependent on state/central grants/budget allocation. However, funds allocated by state or central governments towards MSW management projects are low**, as major portion of the same are primarily used in infrastructural projects such as building roads and bridges.

Dependency on limited number of customers

The company depends on a limited number of customers for a significant portion of its revenue. **The loss of any of the major customer(s) due to any adverse development or significant reduction in business from any major customer(s) may adversely affect its business**, financial condition, results of operations and future prospects.

High working capital requirements:

Working capital management has been a critical issue in the management of urban waste. **Receivables risk from municipalities can lead to financial instability of a private company. This also restricts further investment in asset development.** The company's inability to meet its working capital requirements may have a material adverse effect on its business, financial condition and results of operations.

Competition from National and Global players:

Currently, there are around 20-30 participants in the MSW management market offering various services. Many infrastructure and environment services companies are present in this market. Logistics companies are also present in this market that provide only transportation and fleet management services. Competitors can be categorized into – local, national and global. **National participants include large infrastructure and environmental services firms in which some companies have presence across the entire MSWM value chain (see exhibit 4) and are the key competitors of AWHCL.**

Exhibit 4: Antony waste presence across entire MSWM value chain

Player	Collection & Transportation	Treatment & Disposal	Landfills
IL&FS	✓	✓	
Hanjer Biotech		✓	
A2Z	✓	✓	
UPL Environmental Engineers	✓	✓	✓
Antony Waste	✓	✓	✓
SPML Infra	✓	✓	
Ramky Enviro Engineers	✓	✓	✓
Terra Firma	✓	✓	
Kivar Environ	✓	✓	✓
Essel Group	✓	✓	

Source: Company, PL

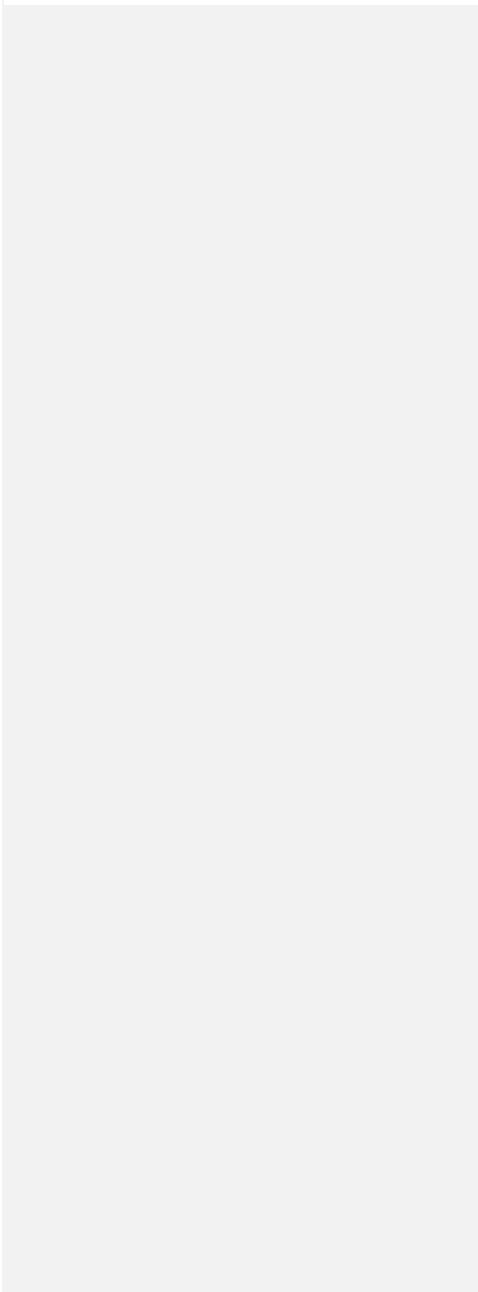
As the focus is shifting towards integrated solid waste management, many municipal corporations are calling for global tenders; hence the market can anticipate entry of more MNCs, in coming years.

Key management personnel

Exhibit 5: Key management personnel

Jose Jacob Kallarakal	Chairman & Managing Director	One of the founders of the company with 18 years of experience in the field of waste management. He holds a Bachelor's degree in Engineering (Mechanical) from Bharati Vidyapeeth's College of Engineering, University of Mumbai and has completed the Authentic Leader Development Course from Harvard Business School, Boston.
Shiju Jacob Kallarakal	Executive Director and the Chief Financial Officer	Holds a Bachelor's degree in Engineering (Chemical) from Bharati Vidyapeeth's College of Engineering, University of Mumbai. He overlooks the accounting and finance along with the legal functions of the Company.
Tarjindar Singh	Chief Operating Officer	He holds a Master's degree in Physics from University of Pune with a merit rank six. He also holds PGD in Business Administration, from MSPI Delhi, Diploma in Export Import Management from IIEIM Mumbai and is a Graduate in Electronics from Pune University.
Shiju Antony Kallarakal	Whole-time director of Antony Lara Enviro Solutions Private Limited which is one of the material Subsidiaries	Over 18 years of experience in the automobile sector and more than five years in the waste management sector

Source: Company, PL



Financials

Exhibit 6: Income Statement (Rs mn)

Y/e Mar	FY16	FY17	FY18	FY19	6MFY20
Net Revenues	2,272	2,758	2,761	2,837	2,186
YoY gr. (%)		21.4	21.4	21.4	21.4
Purchase of Traded Goods	27	2	29	38	5
Change in Inventories of Stock in Trade	1	1	0	0	0
Project Expenses	384	490	333	280	279
Employee benefit expenses	485	606	640	663	442
Other Expenses	760	1,010	1,062	1,094	796
EBITDA	616	648	697	762	665
YoY gr. (%)		5.2	5.2	5.2	5.2
Margin (%)	27.1	23.5	25.3	26.9	30.4
Depreciation and Amortization	136	111	127	183	106
EBIT	480	537	570	578	559
Margin (%)		19.5	20.7	20.4	25.6
Net Interest	271	253	229	250	139
Other Income	121	154	146	148	70
Profit Before Tax	330	438	488	477	490
Margin (%)		15.9	17.7	16.8	22.4
Total Tax	67	28	89	133	111
Effective tax rate (%)	20.4	6.3	18.2	27.8	22.7
Profit after tax	263	410	399	344	378
Minority interest	-91	-83	-105	-73	-101
Share Profit from Associate	0	0	0	0	0
Adjusted PAT	172	327	294	272	278
YoY gr. (%)		90.6	90.6	90.6	90.6
Margin (%)	7.6	11.9	10.6	9.6	12.7
Extra Ord. Income / (Exp)	0	0	0	0	0
Reported PAT	172	327	294	272	278
YoY gr. (%)		90.6	90.6	90.6	90.6
Margin (%)	7.6	11.9	10.6	9.6	12.7
Other Comprehensive Income	0	0	0	0	0
Total Comprehensive Income	0	0	0	0	0
Equity Shares O/s (m)	23.8	23.8	23.8	24.3	25.6
EPS (Rs)	7.2	13.7	12.3	11.2	10.9

Source: Company, PL



Exhibit 7: Balance Sheet (Rs mn)

Y/e Mar	FY16	FY17	FY18	FY19	6MFY20
Non-Current Assets					
Gross Block	642	718	785	2,188	2,713
Tangibles	642	718	785	1,078	1,427
Intangibles	0	0	0	1,111	1,286
Acc: Dep / Amortization	136	245	370	532	638
Tangibles	136	245	370	472	546
Intangibles	0	0	0	61	92
Net fixed assets	507	472	415	1,656	2,075
Tangibles	507	472	415	606	881
Intangibles	0	0	0	1,050	1,194
Capital Work In Progress	596	975	1,056	233	272
Goodwill	0	0	0	0	0
Non-Current Investments	0	0	0	0	0
Net Deferred tax assets	-78	-43	-20	-24	-40
Other Non-Current Assets	164	1119	1271	1625	1644
Current Assets					
Investments	0	0	0	0	0
Inventories	2	0	1	1	1
Trade receivables	1,416	671	727	887	951
Cash & Bank Balance	403	127	336	220	225
Other Current Assets	126	224	355	324	530
Total Assets	3,134	3,545	4,139	4,922	5,657
Equity					
Equity Share Capital	13	13	13	72	72
Other Equity	603	902	1,188	1,429	1,698
Total Networth	616	915	1,201	1,501	1,770
Non-Current Liabilities					
Long Term borrowings	1,774	1,600	1,330	1,669	1,890
Provisions	0	0	0	0	0
Other non current liabilities	0	0	0	0	0
Minority Interest	314	386	491	563	664
Current Liabilities					
ST Debt / Current of LT Debt					
Trade payables	129	160	316	362	412
Other current liabilities	302	484	802	826	921
Total Equity & Liabilities	3,134	3,545	4,139	4,922	5,657

Source: PL

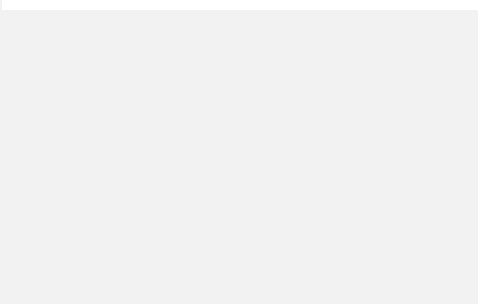




Exhibit 8: Cash Flow Statement (Rs mn)

Y/e Mar	FY16	FY17	FY18	FY19	6MFY20
PBT	330	438	488	477	490
Add. Depreciation	136	111	127	183	106
Add. Interest	267	212	184	193	111
Less Financial Other Income	-111	-114	-110	-129	-69
Add. Other	72	55	52	95	70
Op. profit before WC changes	694	703	742	820	707
Net Changes-WC	-222	-196	-291	-380	-168
Direct tax	-46	-41	-85	-141	-120
Net cash from Op. activities	427	466	366	299	420
Capital expenditures	-204	-441	30	-625	-575
Interest / Dividend Income	114	117	113	130	69
Others	-36	63	-2	-42	-30
Net Cash from Invt. activities	-126	-261	141	-538	-536
Issue of share cap. / premium	165	0	0	0	0
Debt changes	-91	-171	-101	339	221
Dividend paid	0	-66	-37	-56	0
Interest paid	-245	-183	-162	-165	-100
Others	0	0	0	0	0
Net cash from Fin. activities	-170	-421	-300	119	121
Net change in cash	130	-216	206	-119	6
Free Cash Flow	301	205	506	-238	-115

Source: Company, PL

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,122	1,267
2	Ahluwalia Contracts (India)	Accumulate	296	328
3	Apar Industries	Accumulate	646	396
4	Ashoka Buildcon	BUY	167	105
5	Bharat Electronics	Hold	108	101
6	BHEL	Hold	47	39
7	Capacite's Infraprojects	BUY	262	188
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	Hold	580	601
10	Engineers India	BUY	146	95
11	GE T&D India	Reduce	134	157
12	H.G. Infra Engineering	BUY	304	266
13	IRB Infrastructure Developers	BUY	130	93
14	ITD Cementation India	BUY	80	62
15	J.Kumar Infraprojects	BUY	239	149
16	Kalpataru Power Transmission	BUY	601	451
17	KEC International	BUY	397	348
18	KNR Constructions	BUY	313	279
19	Larsen & Toubro	BUY	1,800	1,294
20	NCC	BUY	98	51
21	PNC Infratech	BUY	264	196
22	Power Grid Corporation of India	BUY	224	187
23	Sadbhav Engineering	BUY	147	101
24	Siemens	BUY	1,676	1,496
25	Simplex Infrastructure	NR	-	31
26	Thermax	Accumulate	1,143	1,073
27	Triveni Turbine	BUY	130	100
28	Voltamp Transformers	BUY	1,591	1,379

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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