

December 23, 2022

Attero Recycling Private Limited: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short -term – Unallocated limits	132.00	[ICRA]BBB-(Stable) /[ICRA]A3 assigned
Total	132.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to Attero Recycling Private Limited (ARPL or Attero) takes into consideration its position as a leading recycler of electronic waste (e-waste) products in the country, having an experience of more than 12 years in the segment. Over the years, Attero has cemented its position by strengthening its technology, obtaining multiple patents, and establishing relationships with leading Original Equipment Manufacturers (OEMs) in the consumer electronics and consumer durables space. Furthermore, growth prospects in this segment remain healthy with supportive regulations in place. The Extended Producer Responsibility (EPR) norms for e-waste products, which were implemented in India from 2019 onwards, have increased the earnings potential of companies like Attero by adding a service income stream from OEMs for the recycling of e-waste on their behalf, in addition to the revenues it earns from the sale of metals extracted in the recycling process. ICRA also notes the ongoing proposals to extend the purview of the EPR norms to cover additional product categories and increase the EPR targets, which when implemented would offer further growth potential for companies like Attero.

Attero has also ventured into the recycling of lithium-ion batteries (LiB) since 2020, developing its own technology in house, whereby it is able to extract rare-earth metals like lithium, cobalt, nickel and manganese from the batteries (also known as urban mining) at industry-leading recovery rates. With the increasing adoption of LiB in various sectors and global shortage of the metals and minerals used in LiB, the growth prospects in this segment remain quite favourable; further bolstered by recent battery waste management and circular economy norms notified in August 2022. Accordingly, Attero plans to establish itself as a global player in the LiB space, supported by its patented technology, with large capacity expansion plans on the anvil. Initially, it plans to set up a greenfield facility in Telangana with a capacity of recycling 5,000 metric tonnes per annum (MTPA) in the first phase of the project; the second phase of similar capacity would follow.

Being a greenfield project, the Telangana plant would be exposed to typical project risks such as that of time and cost overruns, financial closure-related risks, operational and technology risks. Furthermore, the quantum of investment to be incurred is quite sizeable at Rs. 270 crore for Phase I and a similar quantum envisaged for Phase II as well. The company's ability to obtain financial closure in a timely manner, and the funding mix adopted for the same, would remain key determinants of the viability of the project. Overall, the timely progress of the project, without any significant cost escalations, and successful ramp up of operations would remain critical for the timely debt servicing of the project debt; nevertheless comfort is drawn from cash accruals being generated from existing operations, which are expected to provide a cushion in case of any unexpected delays in the ramp-up of the new plant. Nevertheless, given the sizeable investment and the nascent stage of the market, Attero's return indicators are expected to witness some moderation over the medium term. While the company has been making inroads into securing contracts for LiB sourcing from various entities, its ability to ramp-up operations at the new plant without any major hiccups, would remain critical.

The ratings also factor in the company's limited track record of profitable operations with the company generating operating and net profits only from FY2021 onwards. Although the company has continued this into FY2022 as well with a healthy operating profit margin of 28.1% reported (21.8% in FY2021), a sustained track record of the same remains critical.

ICRA has also noted the overdues with respect to principal and interest on the Compulsorily Convertible Debentures (CCDs) issued by International Financial Corporation (IFC) to the company, as disclosed in the company's audited financials for FY2022.

However, ICRA understands that the same have been on account of technical issues, and discussions are ongoing with IFC for the conversion of the entire CCD, along with interest accrued thereon, into equity.

The Stable outlook on the long-term rating indicates ICRA's expectation that Attero would maintain its operational profile going forward, as a leading player in the e-waste recycling space and emerging presence in LiB recycling. While capex plans over the medium term remain sizeable, the progress on the project, including funding mix, financial closure, physical progress, and receipt of supply contracts would remain monitorables.

Key rating drivers and their description

Credit strengths

Among leading e-waste recyclers in India; experienced promoters and proven technology in the segment – Being in the business since 2008, Attero's promoters have an extensive experience in the recycling of hazardous waste such as e-waste and batteries and have made inroads into developing relationships with key stakeholders in the recycling value chain. Over the years, it has developed a patented technology for recycling hazardous waste and has emerged as one of the leading e-waste recyclers in India.

Favourable growth prospects backed by supportive regulatory environment – The EPR norms for e-waste, implemented in 2019, and the battery waste management rules introduced in August 2022, are playing a key role in institutionalising hazardous material recycling in the country. With the responsibility of recycling end-of-life products shifting to the OEMs, and the OEMs outsourcing this activity to recyclers, the growth prospects for organised players like Attero remain healthy. Moreover, proposed increase in the scope of the EPR norms and increasing targets under the norms, would provide further upside potential to growth, once these materialise.

Comfortable profitability and return indicators – Post the implementation of EPR norms for e-waste, Attero's operations have scaled up significantly over the past two fiscals. Coupled with steady rise in metal prices, which has supported the realisations earned on metal sales, Attero reported robust operating profit margins and return indicators in FY2021 and FY2022. The company has also been able to improve its leverage and coverage indicators during this period; although its ability to maintain the same in light of significant capex plans remains to be seen.

Credit challenges

Large capex plans on the anvil which would lead to moderation in return metrics over medium term; financial closure for same remains critical – The company is setting up a greenfield facility for the recycling of LiB in Telangana, with a capacity of 5,000 MTPA at a project cost of Rs. 270 crore (in Phase I). Given the sizeable capex outgo relative to the size of existing operations, the company's return metrics are likely to witness some moderation over the medium term. Moreover, considering the nascent stage of the LiB recycling market in India, the company's ability to quickly ramp up the new facility and turn profitable would remain to be seen. ICRA believes the funding mix and terms finally adopted for this project would remain critical to determine its ability to timely meet the debt servicing obligations from project cash flows.

Greenfield capacity expansion exposed to typical project risks – Being a greenfield project, the plant coming up in Telangana is subject to typical project risks such as time and cost overruns, financial closure-related risks, operational and technology risks. The timely progress of the project, without any significant cost escalations, and successful ramp up would remain critical for the timely debt servicing of the project debt. Nevertheless, ICRA notes that the company is likely to generate comfortable cash accruals from its existing operations, which would support it to some extent in case of any unforeseen delays in ramping up the new plant as per expectations.

Scale up and stabilisation of greenfield plant dependent on LiB supplies; plans to import the same exposes it to forex fluctuations – With the new plant being set up in Telangana completely focussed on LiB recycling, ensuring a steady supply of lithium-ion batteries would remain critical for timely ramp-up and stabilisation of the plant. Accordingly, the company has tied up with some global players to import the same, which is expected to support it in ramping up operations; nevertheless, ability

to ramp-up operations at the new plant without any major hiccups, would remain critical and a key monitorable. ICRA also notes that the company's plans to import the LiB subjects it to fluctuations in foreign exchange rates.

Limited track record of profitable operations – Till FY2020, the company's cash flows were stressed primarily on account of delay in implementing the EPR regulations by the government and due to the mobile phone refurbishment business that it had undertaken. Although the company's operations have turned profitable from FY2021 onwards and remained profitable in FY2022, a sustained track record of the same remains important.

Liquidity position: Adequate

Attero's liquidity is expected to remain **adequate**, supported by healthy cash accruals of Rs. 50-60 crore annually. In addition, the company had free cash and cash equivalents to the tune of Rs. 5.7 crore as on March 31, 2022. Against these sources of funds, the company has capex plans of Rs. 270 crore (over FY2023-FY2024), which are expected to be funded through a mix of incremental term debt and fresh equity infusion from PE investors.

Rating sensitivities

Positive factors – ICRA could upgrade ARPL's ratings if the company ensures timely progress of the greenfield project, without any significant time or cost overruns. Furthermore, its ability to achieve timely ramp up at the new plant along with maintaining stable cash flows in its existing operations, would remain critical for a rating upgrade.

Negative factors – Negative pressure on ARPL's rating could arise if the project progress is delayed considerably, resulting in significant time and cost overruns, or in case the funding mix or terms are significantly different from expectations. Further, delays in stabilisation of the new facility or any unfavorable changes in the regulatory environment, which may affect the existing operations and cash flows adversely, may also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of ARPL.

About the company

Incorporated in 2008, Attero commenced operations in the e-waste recycling space from 2010. In this segment, the company undertakes recycling of end-of-life electronic products like refrigerators, air conditioners, mobile phones, computers, etc, in the process of which it extracts pure metals like aluminium and copper. The company generates revenues through two streams in this segment—service revenues from OEMs for recycling their products and revenues from the sale of extracted metals.

Further, the company has developed technology for LiB recycling, which it began from FY2020. The company has developed an in-house technology that can be used across batteries of various shapes and chemistries and has secured 26 patents for the same. In this segment, the primary source of revenue is from the sale of metal extracted from the batteries, namely nickel, cobalt, manganese, lithium, etc.

Currently, the company operates from its recycling facility at Roorkee, Uttarakhand, which has a recycling capacity of 144,000 MT of e-waste and 700 MT of LiB annually. Furthermore, it is in the process of setting up a greenfield facility in Telangana for the LiB recycling segment, with an initial capacity of 5,000 MTPA.

Key financial indicators (audited)

ARPL Standalone	FY2021	FY2022
Operating income	114.2	213.8
PAT	12.9	40.0
OPBDIT/OI	21.8%	28.1%
PAT/OI	11.3%	18.7%
Total outside liabilities/Tangible net worth (times)	2.0	1.0
Total debt/OPBDIT (times)	2.0	0.8
Interest coverage (times)	5.1	13.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All calculations are as per ICRA Research Source: ARPL, ICRA Research

Status of non-cooperation with previous CRA:

Brickworks had downgraded the ratings to BWR D and moved it to Issuer Not Cooperating category in August 2018, due to lack of adequate information and on the basis of feedback from the banker. The BWR D INC rating was subsequently withdrawn in June 2022.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 23, 2022			
1 Unallocated limits	Long term/ Short term	132.0	-	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Unallocated limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Unallocated limits	NA	NA	NA	132.00	[ICRA]BBB-(Stable)/[ICRA]A3

Source: Company

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Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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