

The Garbage King

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In 1994, a pneumonic plague epidemic broke out in the diamond city of Surat in Gujarat, resulting in 52 deaths and large scale panic migration of about half-a-million residents. It took months of concerted efforts by health officials to restore normalcy. One of the main reasons identified for the outbreak of the pestilence was choked sewers because of uncleared garbage, which led to rats and other vermin thriving.

Over 700 km south-east of Surat, in the Nawabi capital of Hyderabad, a young civil engineer, who had worked with Gannon Dunkerley and Reliance Industries - executing waste water management and engineering projects for them - saw a business opportunity. "Each time I would step out of the house or go to a hospital, I would see mounds of garbage. If at all it was cleared, it was just hauled away and dumped on the outskirts. Given that I had some engineering expertise, I wondered if there was a better and more environment-friendly way of handling the waste even while making it a viable business. Thus was born Ramky's environmental engineering business," says Alla Ayodhya Rami Reddy, chairman of the Ramky Group of companies. In 2010, Ramky Enviro Engineers (REEL), part of the Ramky Group that deals with waste management earned Rs 1,070 crore handling garbage, including Rs 700 crore from the domestic market alone.

Ramky's business model is simple. It collects money from municipality bodies and private companies for the collection, handling, transport and disposal of waste. In Bangalore, Delhi and Guwahati, the city municipal corporations have outsourced the collection and disposal of municipal solid waste to Ramky's. From pharma companies such as Dr. Reddy's and Tata Chemicals to hospitals such as Apollo and Fortis, all have outsourced their waste management to REEL, saving themselves a big headache and helping Ramky fill its coffers.

Take Hyderabad, the pharma capital of India with many large drug manufacturers such as Dr. Reddy's Labs and Aurobindo Pharma. One of the fallouts of drug manufacturing is the large quantity of chemical waste that is generated. Handling this hazardous industrial waste requires technical expertise. Even after the waste has been treated and put in a landfill, it needs to be monitored for 25-30 years. "It is not economically-viable for each company, even for the large pharma players to own and manage waste handling facilities," says M. Narayana Reddy, managing director of Virchow Laboratories and former chairman of the Bulk Drug Manufacturers' Association. According to him, a shared services model works better as the service provider can do this at a reasonable cost due to economies of scale and also develop

technical expertise. "It goes to Ayodhya Reddy and Ramky's credit that they identified this need and fulfilled it, in the process building a large business in waste management," he adds.

The business opportunity that Ramky discovered is huge and has immense potential for growth. Consider this: India generates about 200,000 tonnes of municipal solid waste (MSW) every day. An average Indian generates anywhere between 200-600 gm of waste per day. Currently, the waste management industry in India is estimated at Rs 1,500 crore and is likely to double in the next two years. Research and consultancy firm Frost and Sullivan is extremely bullish on the industry and expects it to grow to \$8 billion eventually. "The industry is very nascent, but over the past two-three years, it has seen tremendous growth thanks to rapid urbanisation, more stringent enforcement of existing laws and growing awareness due to globalisation," says Sasidhar Chidanamarri, industry manager (environment technologies practice) at Frost & Sullivan.

Ramky grew slowly for much of the first decade of its existence. The turning point was 2003 when the Supreme Court made it mandatory for all Class-1 cities to have a provision for scientific disposal of solid waste. Then came the Australia-India bilateral programme for waste management that helped in technology transfer. In 2005, the JNNURM (Jawaharlal Nehru National Urban Renewal Mission) provided for public-private partnership and gave states grants for MSW, providing further impetus to Ramky's business.

With municipal bodies across the country handing out waste management contracts and stricter enforcement of laws like Biomedical Waste (management and handling) Rules, 1998, Hazardous Waste (management and handling) Rules of 1989 and the promulgation of e-waste guidelines by the Central Pollution Control Board, business boomed. Wealth Out Of Waste Given the growth in the sector, it has naturally attracted newer players to enter the market. Prominent among them are Antony Waste Handling Cell, A2Z Infrastructure, **SPML Infra** and IL&FS Waste Management & Urban Services. Even international players such as Veolia Environment and Suez of France as well as Australia's Remondis are watching the Indian market. "Our goal is to double our waste-handling capacity to 20,000 tonnes per day in the next 12 months," says Rajneesh Mehra Joint Managing Director, A2Z Infrastructure (BW Pic By Bivash Banerjee) The Indian waste industry is roughly categorised into four buckets - MSW, biomedical waste, electronic or e-waste and hazardous waste. MSW represents the largest chunk of opportunity though other segments are more profitable. Electronic waste management is the most lucrative area as processing a tonne of e-waste earns the company Rs 75,000-80,000 while a tonne of MSW fetches only Rs 500-700. But MSW has huge volumes. Delhi generates 8,500 tonnes of MSW a day, says **Rishab Sethi, COO of SPML Infra, which manages waste at Allahabad, Mathura, Dehradun and Madurai apart from Delhi. "Looking at the increase of waste generation, this sector is poised for a big leap in the future."** A2Z Infrastructure, which operates in 27 cities, is also gung-ho about the future prospects. Rajneesh Mehra, joint managing director of A2Z, expects the company to earn revenues of Rs 250 crore from waste management. "What is interesting is that even in places like Varanasi, Moradabad, Muzzafarnagar and Aligarh, households are ready to pay Re 1 a day or Rs 30 a month to have their waste effectively managed and garbage cleared. This clearly shows that there is a willingness and ability to pay. Our goal is to double our waste-handling capacity from 10,000 tonnes per day in the next 12 months. We are also aggressively looking at international opportunities." The waste management business has

five processes - collection, transport, treatment, disposal and recycle. Municipalities traditionally split the contract and award collection and transport to one player, while the rest is carried out by a different player. Anil Prakash, director-in-chief (solid waste) of Municipal Corporation of Delhi, says that usually this is done to keep competition alive and players on their toes. However, there are a large number of non-serious players who have entered the market and are spoiling business for the serious players. "Some business models of newer players are suspect. Some say they will pay the municipalities to collect and process the waste and make money on the plastic, metal and other valuables in waste. Nowhere in the world is MSW processed for free. Some regulatory mechanism is required to weed out non-serious players because this results in MSW projects being awarded but not implemented," says Devendra Mehta, CFO of Antony Waste Handling Cell, which runs several MSW projects in Mumbai, Delhi, Jaipur and Amritsar. Unlike western markets where waste has greater portion of valuable metal, plastics and paper, Indian waste has a far lower mix of this, says Mehta. In FY2011, Antony Waste recorded revenues of Rs 130 crore from the MSW business; it is planning to enter the e-waste market soon.

Challenges Since it is a people intensive business and involves working with government bodies very closely, the waste management business has its own share of unique challenges. A CEO of a waste management major, who did not want to be identified, says there is a truck mafia and even a rag-picker mafia that players have to confront. "Unlike the common perception, we are not talking about individual rag pickers, but organised rackets that strip waste of all value, making it an unviable business for whoever is executing the contract," he says. In the process, it is not uncommon for companies to get their hands dirty. Ramky Infrastructure, a group company, was raided by the CBI in August 2011 for certain projects awarded to it during 2004-09. Increasingly, in urban areas getting permission for a landfill site is becoming problematic due to the NIMBY (not-in-my-backyard) phenomenon. "Everybody wants the garbage cleared but even on the outskirts nobody wants a landfill. This not-in-my-backyard attitude is a problem. As cities become increasingly congested, it has become difficult to find landfill sites," says Goutham Reddy M., executive director of the Ramky Group. The buzz surrounding the sector in recent years has meant that a number of infrastructure firms are eyeing this business. "Most multinationals are waiting to enter the waste water management business once the market becomes large enough, whereas Indian infrastructure companies are looking at the domestic MSW market," says Chidanamarri of Frost & Sullivan. Mehta of Antony Waste agrees that in MSW, there are low barriers to entry. "However, as we move to more efficient systems, technology will create entry barriers. The industry will see a lot of churn. Aggressive pricing mechanism in tenders by some participants maybe a good strategy to build an order book and do an IPO for the gullible public but not a recipe for sustainable business success." Nanda of REEL says that waste management is more than a civil contract or EPC (engineering, procurement and construction) work and many infra companies that aspire to enter the segment may not succeed. Private players are making hefty profit margins as the government has abdicated its role of providing basic services alleges Bhargavi S. Rao, trustee at the Environmental Support Group, a non-government organisation. "Waste handling and landfills do not even adhere to minimum standards as we have seen in studies conducted by us in Bangalore and Bellary. The government should encourage the '3 R mantra' - reduce, reuse and recycle - which traditionally Indians have been good at." Investment Opportunities High margins and the potential of the sector have attracted private equity (PE) firms to the sector. While A2Z received initial funding from noted investor Rakesh Jhunjhunwala (it has subsequently gone public though Jhunjhunwala remains on the board), REEL has received Rs 200 crore from a PE consortium comprising Singapore-based

Standard Chartered IL&FS Asia Infra Growth Fund and Tara India Holding A of Mauritius. The PE investors are believed to have picked a 4.5 per cent stake, effectively giving REEL a market capitalisation of more than a billion dollars. However, both Ayodhya Reddy and IL&FS refused to comment on the percentage stake held in REEL by PE players. Similarly IDFC's India Infrastructure Fund has invested in Hanjer Biotech Energies and International Finance Corporation has invested in Noida-based Attero Recycling, which is into e-waste. Krishna Kumar, managing partner of IL&FS Investment Managers, says that it was the growth potential of the sector which attracted IL&FS to make an investment in REEL. "We are very happy with the progress the company has made. Though IL&FS has a waste management company, we have a Chinese wall which separates our investments. Ramky is the pioneer in the sector and we have confidence in the management of the company." Addressing the issue of whether the waste management industry will come up against barriers like willingness to pay as they enter Tier-2 and Tier-3 cities, Kumar says: "IL&FS has a history of funding sectors which are about to take off. When we funded roads, apprehension was expressed whether people would pay tolls? The same story was repeated in airports. Today across the infrastructure spectrum, the model of the user of service having to pay has been settled. I don't see that as an issue." All the players are excited about the potential of converting waste to energy, thus developing another revenue stream. In Kanpur, A2Z Infrastructure is putting up a 15-MW power plant which will use waste to generate electricity. Mehta of Antony Waste says that the government should provide the same concessions as it does for other non-conventional energy investments in solar and wind power. All of them are also looking to tap the international market for growth opportunities. Ayodhya Rami Reddy says he is looking to emerge as a global player in the waste management sector rather than just being a pan-India one. While he has built a business on managing waste in India, it remains to be seen whether Ramky and other Indian players can take their success story international, too.

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