

## SFC Environmental Technologies Private Limited

April 6, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long - term Bank Facilities	10.00	<b>CARE A-; Stable</b> [Single A Minus; Outlook: Stable]	Reaffirmed
Long-term/Short-term Bank Facilities	45.00	<b>CARE A-; Stable/CARE A1</b> [Single A Minus; Outlook: Stable/A One]	Reaffirmed
<b>Total</b>	<b>55.00</b> <b>(Rs. Fifty- five crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of SFC Environmental Technologies Private Limited (SFC) continues to derive comfort from its experienced promoters, strong technical competence, robust order book providing revenue visibility and SFC's initiative of diversifying itself into the solid waste management business (by execution of the North Goa project) through its associate company, Hindustan Waste Treatment Private Limited (HWTPL). The ratings also positively factor in the healthy PBILDT margins and strong financial risk profile of the company characterized by robust debt coverage indicators with minimum reliance on external debt. Comfort is also derived from the fact that SFC consistently maintains significant cash and liquid investments which provides a further liquidity cushion.

The rating strengths are however tempered by the company's moderate scale of operations, working capital intensive nature of business and susceptibility of its business operations to economic cyclicality since sluggish growth in the infrastructure sector may lead to weakening of the liquidity position of the EPC players (counterparties to SFC).

### Rating Sensitivities

#### Positive Factors

- Achievement in revenue to the tune of Rs.300 crore on a sustained basis by diversification into other business lines of Engineering services, Disc filter, Turbo blowers, Solid waste treatment, Remediation, Operations and Maintenance (O&M) of Sewage Treatment Plant (STP) and Municipal Solid Waste (MSW) plants
- Improvement in PBILDT margin to over 20% on a sustained basis

#### Negative Factors

- Additional exposure to group companies in the form of investment for undertaking capital intensive projects

### Detailed description of the key rating drivers

### Key Rating Strengths

#### Experienced Promoters:

SFC was incorporated in 2005 and has a successful track record of more than ~15 years in the industry. SFC is promoted by Mr. Sandeep S Asolkar and Ms. Aparna Kapoor who have an experience of more than 20 years in similar line of businesses.

#### Healthy order book position:

The company's technical expertise and knowhow over advanced sequential batch reactor technology (C-tech) suitable for India burgeoned into a healthy order book of Rs.468 crore as on February 20, 2020 which pertain to sewage waste water treatment projects demonstrating healthy revenue visibility. In 9MFY20, SFC reported revenue of Rs.195 crore as compared to Rs.56 crore in the previous period. SFC has also diversified into various other segments like Engineering services, Disc filter, Turbo blowers,

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

Solid waste treatment, Remediation, O&M of STP and MSW plants generating a healthy revenue stream from these business areas over and above C-Tech business.

**Investment in solid waste treatment plants:**

During FY16, SMC Infrastructure Private Limited (SMC) was awarded two contracts to undertake solid waste management projects in North Goa and South Goa respectively. The projects are being executed by Hindustan Waste Treatment Private Limited (HWTPL), a joint venture created, wherein SFC holds 49% through its wholly owned subsidiary Navitas Waste Treatment Private Limited (Navitas) while the remaining 51% is held by SMC. The technology and equipment required for the project are provided by SFC and the EPC work is undertaken by SMC. The North Goa plant has commissioned its operations during FY16 and has been receiving an annual annuity amount of Rs.36.40 crore. In addition to the equity infused by SFC (through its subsidiary Navitas), HWTPL had availed an initial loan (outstanding amount ~Rs.68 crore as on March 31, 2020) against which corporate guarantee of Rs.128.47 crore has been given which is joint and several by SMC and SFC.

**Key Rating Weaknesses**

**Moderate scale of operations:**

The total operating income of the company grew by 21.3% on YoY basis. The PBILDT margins remained stable at 17.26% (PY: 17.52%). On an overall basis, the scale of operations continues to be at moderate levels. SFC is however making efforts to diversify its revenue streams and the same is reflected by growth in revenue to Rs.195 crore in 9MFY20 (Previous period: Rs.56 crore).

**Working capital intensive nature of operations:**

The operations of the company are inherently working capital intensive on account of elongated credit period offered to the customers. The average collection period stood at 207 days in FY19 (PY: 214 days). The recoveries from customers are prolonged owing to delays in receipt of dues by the counter parties from the urban local bodies or delay in completion of the projects or temporary constrained liquidity position of the counterparties. Nevertheless, the credit risk is minimized as ~80% debtors are backed by Letter of Credit (LCs). Further, since the company majorly utilizes overdraft facility which is backed by its Fixed deposits to fund its working capital requirements, the reliance on external debt for meeting the working capital requirements is minimal. However, as indicated by the company, the collection period has substantially reduced in 9MFY20.

**Support to group companies:**

SFC has a 49% stake in the HWTPL which is into solid waste management and is running an operational plant in North Goa. The South Goa project is yet to commence and has a project value is of Rs.180 crore. It will be executed through a Special Purpose Vehicle (SPV) formed by SFC and SMC. Government of Goa shall be funding 75% of the South Goa Project on EPC basis and the balance 25% of the funds shall be deployed by the SPV through internal accruals of the companies or through short term WC loans. As on March 31, 2019, SFC had invested Rs.16.46 crore in group companies (Chavare Engineering Private Limited and SFC Umwelttechnik, GmbH, Austria) and had advanced loans and advances to the tune of Rs.19.58 crore to its subsidiary Navitas.

**Liquidity: Strong**

The liquidity position of SFC is strong as reflected by fixed deposits of Rs.158 crore (includes Rs.22 crore of lien marked FD for non-fund based limits) as on March 15, 2020 against overdraft balance of Rs.55 crore. SFC majorly funds its working capital requirements by availing overdraft facilities that are backed by fixed deposits. The average fund based utilization over 16 months (October 2018-January 2020) stood at 12.5%. Further, comfort can be derived from the fact that the company does not have any long term external debt repayment obligations.

**Analytical approach: Standalone**

CARE has taken a Standalone approach as the subsidiaries are independently managed companies

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch'](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

**About the Company**

SFC Environmental Technologies Private Limited (SFC) has a track record of ~15 years and is promoted by Mr. Sandeep S Asolkar and Ms. Aparna Kapoor. The promoter group holds 100% equity stake in the company, wherein 80% equity stake is held by Enviropro Water Tech Private Limited being an investment company of the promoters while the balance 20% equity stake is held by the promoters in their individual capacity. The company designs and supplies core equipment for sewage treatment plants. SFC supplies Cyclic Activated Sludge Technology (C Tech) that is an advanced sequential batch reactor technology that is extensively used for treating domestic sewage and industrial effluents. The company has also diversified into other lines of

business like Engineering services, Disc filter, Turbo blowers, Solid waste treatment, Remediation, O&M of STP and MSW plants generating a healthy revenue stream from these business areas over and above C-Tech business.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	144.61	175.38
PBILD	25.33	30.27
PAT	15.60	20.60
Overall gearing (times)	0.35	0.28
Adjusted Overall gearing (times)*	1.56	1.31
Interest coverage (times)	11.02	8.35

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	45.00	CARE A-; Stable / CARE A1

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Stable	-	1)CARE A-; Stable (27-Feb-19) 2)CARE A-; Stable (03-Apr-18)	1)CARE A-; Positive (28-Apr-17)	1)CARE A- (21-Apr-16)
2.	Fund-based/Non-fund-based-Short Term	ST	-	-	-	1)Withdrawn (27-Feb-19) 2)CARE A1 (03-Apr-18)	1)CARE A1 (28-Apr-17)	1)CARE A1 (21-Apr-16)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	45.00	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (27-Feb-19) 2)CARE A-; Stable / CARE A1 (03-Apr-18)	1)CARE A-; Positive / CARE A1 (28-Apr-17)	1)CARE A- / CARE A1 (21-Apr-16)

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not applicable

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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#### Disclaimer

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