

SFC Environmental Technologies Private Limited

April 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	22.25 (Enhanced from 10.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	103.52 (Enhanced from 45.00)	CARE A-; Stable / CARE A1 (Single A Minus ; Outlook: Stable / A One)	Reaffirmed
Total Facilities	125.77 (Rs. One Hundred Twenty-Five Crore and Seventy-Seven Lakhs Only)		

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) continue 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) and the expected increase in the Total Operating Income (TOI) in FY22 on the back of execution of the South Goa Project under Vasudha Waste Treatment Private Limited (VWTPL). 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 and reduction in the contingent liabilities as on March 31, 2021 due to term loan closure of HWTPL. 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 and working capital intensive nature of business. Ratings also factor in susceptibility of its business operations to economic cyclicity 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.500 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 22% on a sustained basis

Negative Factors

- Deterioration in PBILDT margin below 15% on a sustained basis
- Additional exposure to group companies than what is envisaged leading to adjusted overall gearing elevating to 1.40x on a sustained basis.

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. Currently, the promoters manage the overall marketing operations of the group, while the day-to-day operations are managed by professional second-tier management.

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.685.59 crore as on October 19, 2020 which pertain to sewage waste water treatment projects demonstrating healthy revenue visibility. In 9MFY21, SFC reported revenue of Rs.113.65 crore as compared to Rs.194.43 crore in the previous period. SFC has also diversified into various other segments like Engineering services, Disc filter,

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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.

Investment in solid waste treatment plants:

During FY14, SMC Infrastructure Private Limited (SMC) was awarded contract to undertake solid waste management projects in North Goa. The projects are being executed by Hindustan Waste Treatment Private Limited (HWTPL), a joint venture created, wherein SFC being the technology partner 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.29.90 crore and almost 8.00 crore on account of Operating revenue. In addition to the equity infused by SFC (through its subsidiary Navitas), HWTPL had availed an initial loan against which corporate guarantee of Rs.128.47 crore was given which is joint and several by SMC and SFC. Since the loan is already repaid and documentation is in process, there is no contingent liability in respect of this term loan as on March 31, 2021. Further, the company is also executing another solid waste management project is South Goa under Vasudha Waste Treatment Pvt Ltd wherein SFC holds 74% stake and balance being held by SMC.

Key Rating Weaknesses

Moderate scale of operations:

The total operating income of the company grew by 34.4% on YoY basis in FY20 due to higher order execution in H1FY20. On an overall basis, the scale of operations continues to be at moderate levels. The PBILDT margins remained stable at 18.14% (PY: 17.26%). SFC is however making efforts to diversify its revenue streams and the same is reflected by growth in revenue in FY20. Further, the execution of the South Goa project is expected to boost the TOI significantly in FY22.

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 124 days in FY20 (PY: 207 days). Lower collection period in FY20 is due to lower debtors at the end of March 2020 as some orders could not be executed due to COVID-19 in FY20. The recoveries from few 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.

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 company is undertaking a similar project in South Goa under VWTPL, wherein, Government of Goa shall be funding 75% of the South Goa Project and the balance 25% of the funds shall be deployed by the SPV. The investment in this project is expected to be ~Rs.33.30 crore in FY22 which is expected to be funded through internal accruals/existing liquidity and without any reliance on external debt. As on March 31, 2020, SFC had invested Rs.21.32 crore (PY: Rs.16.46 crore) in group companies (Chavare Engineering Private Limited and SFC Umwelttechnik, GmbH, Austria and Intergeo Solid Waste Management Pvt. Ltd) and had advanced loans and advances to the tune of Rs.19.18 crore to its subsidiaries.

Liquidity: Strong

The liquidity position of SFC is strong as reflected by Fixed Deposits (FD) of Rs.103.67 crore as on March 23, 2021. Of the above, Rs.10.17 crore is lien marked for fund based non-fund based limits. The Overdraft (OD) utilization was nil as on March 23, 2021. FD earmarked for OD was Rs.82.39 crore as on March 23, 2021. SFC avails overdraft facilities that are fully backed by fixed deposits. Also, during the 17 month period (from October 2019-February 2021), out of the total sanctioned cash credit limits of Rs.10 crore, SFC had average utilization of 2.7% and maximum utilization of 14.4%. There are no long term debt repayment obligations. The company had not availed moratorium as per RBI notification dated March 27, 2020.

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' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

SFC Environmental Technologies Private Limited (SFC) has a track record of over 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)	FY19 (A)	FY20 (A)
Total operating income	175.38	235.73
PBILDT	30.27	42.76
PAT	20.60	34.23
Overall gearing (times)	0.28	0.40
Adjusted Overall gearing (times)	1.31	1.29
Interest coverage (times)	8.81	9.79

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

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

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	22.25	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	103.52	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	22.25	CARE A-; Stable	1)CARE A-; Stable (06-Apr-20)	-	1)CARE A-; Stable (27-Feb-19) 2)CARE A-; Stable (03-Apr-18)	1)CARE A-; Positive (28-Apr-17)
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)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	103.52	CARE A-; Stable / CARE A1	1)CARE A-; Stable / CARE A1 (06-Apr-20)	-	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)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not available**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based/Non-fund-based-LT/ST	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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