

SFC Environmental Technologies Private Limited

April 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Cash Credit)	10.00	CARE A-; Stable [Single A Minus; Outlook: Stable]	Rating reaffirmed; Outlook revised from Positive to Stable
Short-term Bank Facilities (Letter of Credit/Buyers Credit)	40.00	CARE A1 [A One]	Reaffirmed
Long-term/Short-term Bank Facilities (Bank Guarantee)	10.00	CARE A-; Stable/CARE A1 [Single A Minus; Outlook: Stable/A One]	Rating reaffirmed; Outlook revised from Positive to Stable
Total Facilities	60.00 (Rs. Sixty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to SFC Environmental Technologies Private Limited (SFC) continues to derive comfort from experienced promoters, strong technical competence and revenue visibility with comfortable order-book position. Further, the rating also positively factors the robust credit profile of the company in terms of lean capital structure and comfortable debt protection metrics with minimum reliance on debt and strong profitability margins. The company also consistently maintains significant cash and liquid investments which provides a further liquidity cushion. The rating strengths are however tempered by moderate scale of operations, working capital intensive nature of operations albeit majority of the sales being backed by letters of credit and high amount of support provided by SFC to its group entities in the form of loans and corporate guarantee for foraying into solid waste management business. The company's ability to effectively improve the working capital cycle, execute the South Goa project within the stated time and cost estimates and consistently maintain operating margins form the key rating sensitivities.

Outlook: Stable

The outlook has been revised from 'Positive' to 'Stable' on account of moderate scale of operations, decline in the profitability margins in FY17 when compared with the margins earned in FY16 and decline in the order book position as compared to the position considered during the last surveillance.

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 10 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.

Strong 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. 235 crore as on December 31, 2017 (as compared to Rs. 410 crore as on April 25, 2016). The orders received pertain to sewage waste water treatment projects which is around 1.85 times the revenue earned during FY17, thus demonstrating a healthy revenue visibility.

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

Comfortable liquidity position

The liquidity position of the company continues to be at comfortable levels as reflected by the fixed deposits placed amounting to Rs. 84.55 crore as on March 31, 2017 (as compared to Rs.83.54 crore as on March 31, 2016). SFC avails overdraft facilities that are backed by fixed deposits (with a margin of 15%). Post adjusting the lien marked fixed deposits against the overdraft facility availed, the net debt balance stands at Rs.8 crore as on March 31, 2017 (as compared to Rs.9 crore as on March 31, 2016). Accordingly, the overall gearing ratio continues to be comfortable at 0.12x in FY17 (as compared to 0.20x in FY16) while the interest coverage ratio was 11.02x in FY17 (as compared to 26.62x in FY16).

Investment in solid waste treatment plants:

During FY16, SMC Infrastructure Private Limited was awarded two contracts to undertake solid waste management projects in North Goa and South Goa respectively. The projects were to be executed by Hindustan Waste Treatment Private Limited (HWTPL), a joint venture created, wherein SFC would hold 49% through its wholly owned subsidiary Navitas while the remaining 51% would be held by SMC. The technology and equipment required for the project were to be provided by SFC and the EPC work to be undertaken by SMC. The North Goa plant has commissioned its operations during FY16 and has been receiving an annual annuity amount of Rs. 36.4 crore. The construction of the South Goa project is expected to commence from FY19.

Key Rating Weaknesses***Moderate scale of operations***

The total operating income of the company declined by 15% on y-o-y basis to Rs. 141 crore in FY17 (as compared to Rs. 167 crore in FY16). On an overall basis, the decline in revenue was due to revenue received from solid waste management projects in FY16 amounting to Rs. 85.41 crore while no revenue accrued from the said business in FY17. Accordingly, excluding the said revenue, the revenue from sewage waste treatment projects has grown by 72% y-o-y basis to Rs. 141 crore in FY17 (as compared to Rs. 82 crore earned in FY16). However, the scale of operations continues to be at moderate levels.

Working capital intensive nature of operations

The operations of the company are inherently working capital intensive on account of elongated credit period availed by the customers. The average collection period has increased to 158 days in FY17 (as compared to 101 days in FY16). Amongst the total debtors outstanding as on March 31, 2017, approx. 46% are backed by letter of credit. 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.

Support to group entities

In FY16, the company forayed into solid waste management business for revenue diversification. SFC provided loans to Navitas Waste Water Treatment Pvt. Ltd. (Navitas, wholly owned subsidiary of SFC) towards the equity contribution in the solid waste management project in North Goa. The outstanding loan amount to group entities was Rs. 18.4 crore as on March 31, 2016. SFC has also provided corporate guarantee towards the debt of the group company of Rs. 110crore. Another similar project in Sough Goa is expected to start its construction in FY19 and CARE expects support to be provided towards this project too. Accordingly, timely execution of the project within the estimated cost continues to be the rating sensitivity. Also, any significant support provided to group entities other than envisaged will also remain a key rating monitorable.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

SFC Environmental Technologies Private Limited (SFC) has a track record of more than 10 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 and balance 20% equity stake is held by the promoters in their personal 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. Although the patent on C Tech has expired on June 21, 2016, with in-house technical know-how developed on usage and adaptation to Indian operations, the same has not impacted the business.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	167	141
PBILDT	54	39
PAT	32	21
Overall gearing (times)	0.20	0.12
Interest coverage (times)	26.62	11.02

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

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of 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-Short Term	-	-	-	40.00	CARE A1
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Stable	1)CARE A-; Positive (28-Apr-17)	1)CARE A- (21-Apr-16)	-	-
2.	Fund-based/Non-fund-based-Short Term	ST	40.00	CARE A1	1)CARE A1 (28-Apr-17)	1)CARE A1 (21-Apr-16)	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.00	CARE A-; Stable / CARE A1	1)CARE A-; Positive / CARE A1 (28-Apr-17)	1)CARE A- / CARE A1 (21-Apr-16)	-	-

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