

SFC Environmental Technologies Private Limited

March 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	24.25	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	131.52	CARE A-; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of SFC Environmental Technologies Private Limited (SFC) continues to derive support from its experienced promoters, its comfortable order book position and low leverage. The ratings continues to benefit from its strong liquidity as reflected by its free cash and bank balance available in the form of fixed deposit.

Though the rating has factored in the improvement in performance in FY22, the scale of operations continues to remain moderate, thus constraining the rating. In addition to this, the moderately working capital-intensive nature of operations also continues to constrain the rating. 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: Factors likely to lead to rating actions

Positive factors

- Achievement in revenue to the tune of ₹500.00 crores on a sustained basis.
- Improvement in PBILDT margin to over 22% on a sustained basis

Negative factors

- Deterioration in PBILDT margin below 15% on a sustained basis.
- Adjusted overall gearing to 1.00x on a sustained basis.

Analytical approach: Consolidated

Consolidated approach has been adopted as the subsidiaries are in the same line of business. The list of subsidiaries is as under is presented in Annexure 6.

Outlook: Stable

The stable outlook reflects the company's comfortable order book position ensuring the sustainability of its performance in mid-term.

Key strengths

Experienced Promoters: SFC was incorporated in 2005 and has a successful track record of more than around 17 years in the industry. SFC is promoted by the holding company Enviropro Water Tech Pvt. Ltd.(EWT), Sandeep S Asolkar and Aparna Kapoor. The promoters of EWT and SFC have an average experience of more than 25 years in similar line of businesses. Currently, the promoters manage the overall operations of the group, while the day-to-day operations are managed by professional second-tier management. The said holding company and one of its subsidiary companies is in the process of being merged with SFC and approvals of the same are in place.

Healthy order book position:

SFC, on standalone basis, continues to have a healthy order book of ₹432.47 crores as on February 14, 2023. In addition to this, L1 orders of approximately, ₹273.00 corers are in place. Given the overall order book built up by the company, CARE Ratings Limited (CARE Ratings) expects the revenue to improve in the near to mid-term. The company which is already into solid waste business along with liquid waste treatment, is in the process of expanding in the former segment by planning to bid for further tenders, which includes project spread out in PAN India. Over and above the C-tech business, the solid waste business and other product supply services such as disk filter, turbo blowers, etc continues to aid the company in terms of overall top line. Considering

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the significant gap in generation and treatment capacity of sewage in India, the company's order book is expected to further increase in medium-term given its established record in bagging the orders.

Comfortable debt metrics:

The company continues to remain lowly leverage with absence of term loan and comfortable utilisation of the working capital limits, thus ensuring the overall gearing to be below unity as on March 31, 2022. The overall gearing as on March 31, 2022 stood at 0.17x (FY21: 0.18x). The interest coverage also remains strong at 18.26x during FY22 (FY21: 13.37x). The debt metrics is expected to remain comfortable in near to mid-terms given the y-o-y strengthening of net worth and absence of any term loan.

Key weaknesses**Improved performance in FY22; however moderate scale of operations:**

The performance of the company has improved with total income from operations at ₹486.00 crores in FY22 with C-Tech segment and other ancillary services in waste management service continuing to contribute majorly towards the total consolidated top line of SFC. In addition to this, the solid waste treatment segment contributed around 44% in overall revenue. For FY23, the top line is expected to improve; however, with a marginal pace given the high base of FY22. As per 9MFY23, the company's performance was marginally low in comparison to 9MFY22 with total income from operations on standalone basis at Rs.204.94 crores (FY21: 248.58 crores). SFC on standalone basis continue to contribute more than 80% in total consolidated top line. However, given the top line numbers, the company's scale of operations continues to remain moderate.

The top line is expected to improve in the medium term given its healthy built-up of its order book and addition of its new subsidiary, which currently is into nascent stage of operations. The said subsidiary is into manufacturing of diffusers, which is the one of the components that SFC deals into. This new set-up of subsidiary is expected to support both the top line and profitability of SFC in the medium term.

Moderately working capital intensive nature of operation:

The operations of the company continue to remain moderately working capital intensive on account of elongated credit period offered to the customers. The average collection period in FY22 has improved to 79 days (PY: 101 days). The clients are mainly private sector that have long standing relationships with SFC. As per the management, the higher operating cycle is inherent to the nature of business undertaken and accordingly the cost incurred on such credit period offered is factored in the contract price quoted. 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 most of the debtors are backed by Letter of Credit.

Liquidity: Strong

The liquidity of the company continues to remain strong with cash and cash equivalent of ₹124.35 crores as on February 21, 2023, out of which ₹22 crore is lien marked fixed deposit. The average maximum utilisation of fund-based limits remains comfortable at 47% for the last 12 months ended February 28, 2023. The gross cash accrual of the company remains adequate at ₹87.42 crores as on March 31, 2022. The performance of the company is expected to sustain in the medium term as well, thereby ensuring healthy gross cash accrual in upcoming years as well. The company has no scheduled debt repayment due to absence of term loan.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Utilities	Utilities	Other Utilities	Waste Management

SFC, based in Austria is a global water and waste-water group of companies that has its offices located in India, Austria, Poland, Vietnam, Czech Republic, Egypt and China and has a worldwide sales representative network. The Indian operations are handled by SFC Environmental Technologies Private Limited (SFC) that commenced its operations in 2005. SFC has a track record of over 17 years and is promoted by Sandeep S Asolkar and Aparna Kapoor. The promoter group holds 100% equity stake in the company, wherein 80% stake is held by Enviropro Water Tech Private Limited (an investment company of the promoters) while the balance 20% 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) – (patent for which expired in 2018 that is an advanced sequential batch reactor technology that is extensively used for treating domestic sewage and industrial effluents. A very high degree of wastewater treatment is achieved at a low cost that makes it suitable to recycle and reuse for industrial applications, gardening, agriculture etc.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
	Consolidated	Consolidated	Standalone
Total operating income	272.70	486.00	204.94
PBILDT	33.42	106.66	35.02
PAT	31.72	83.91	25.02
Overall gearing (times)	0.18	0.17	NA
Interest coverage (times)	13.37	18.26	16.06

A: Audited; UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	2.00	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	22.25	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	131.52	CARE A-; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	22.25	CARE A-; Stable	1)CARE A-; Stable (06-Apr-22)	1)CARE A-; Stable (07-Apr-21)	1)CARE A-; Stable (06-Apr-20)	-
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	131.52	CARE A-; Stable / CARE A1	1)CARE A-; Stable / CARE A1 (06-Apr-22)	1)CARE A-; Stable / CARE A1 (07-Apr-21)	1)CARE A-; Stable / CARE A1 (06-Apr-20)	-
3	Fund-based - LT-Bank Overdraft	LT	2.00	CARE A-; Stable	1)CARE A-; Stable (06-Apr-22)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable**Annexure-4: Complexity level of the various instruments rated**

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Annexure-6: List of subsidiaries which are consolidated.

Name of companies/ Entities	% of holding	Country of Incorporation
Intergeo Solid Waste Management Private Limited	100%	India
Chavare Engineering Private Limited	51%	India
Navitas Waste Treatment Private Limited	100%	India
Vasudha Waste Treatment Private Limited	74%	India
SFC Umwelttechnik GmbH	82%	Austria
Hindustan Waste Treatment Private Limited	49%	India

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

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About us:

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