

SFC Environmental Technologies Private Limited

April 06, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	2.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Assigned
Long Term Bank Facilities	22.25	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	131.52 (Enhanced from 103.52)	CARE A-; Stable / CARE A1 (Single A Minus; Outlook: Stable/ A One)	Reaffirmed
Total Bank Facilities	155.77 (Rs. One Hundred Fifty-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 expansion in the North Goa project from 100 Tonnes Per Annum to 250 Tonnes Per Annum) through its associate company, Hindustan Waste Treatment Private Limited (HWTPL), increase in the Total Operating Income (TOI) in FY22 on the back of increased orders in sewage segment, export order from Kenya and execution of the South Goa Project under Vasudha Waste Treatment Private Limited (VWTPL (CARE A-(CE)/Stable)) and strong order book. 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 and moderately working capital intensive nature of business. Ratings also factor in susceptibility of its business operations to economic cyclicalities 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 - Factors that could lead to positive rating action/upgrade:

- Achievement in revenue to the tune of Rs.500 crore on a sustained basis
- Improvement in PBILDT margin to over 22% on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in PBILDT margin below 15% on a sustained basis
- Higher exposure to group companies than what is envisaged leading to adjusted overall gearing elevating to 1.00x 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 ~17 years in the industry. SFC is promoted by Holding company Enviropro Water Tech Pvt. Ltd.(EWT), Mr. Sandeep S Asolkar and Ms. Aparna Kapoor. 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.

Healthy order book position:

The company's technical expertise and knowhow over advanced sequential batch reactor technology (C-tech) burgeoned into a healthy order book of ~Rs.278 crore as on March 11, 2022, and while orders worth Rs.365 crore are under the process of finalization which pertain to sewage waste water treatment projects demonstrating healthy revenue visibility. In 9MFY22, SFC reported revenue of Rs.248.58 crore as compared to Rs.113.74 crore, depicting YoY increase of 119% at the Standalone level, led by revenue booking from the South Goa project, wherein the total expected revenue is Rs.137 crore (of which Rs.84 crore has been booked in FY22 and balance is expected to be booked in FY23). SFC has also diversified into various other segments 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.

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

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 company has also completed the expansion in the North Goa project from 100 TPA to 250TPA. The technology and equipment required for the project are provided by SFC and the EPC work is undertaken by SMC. Further, the company is also executing another solid waste management project is South Goa under VWTPL wherein SFC holds 74% stake and balance being held by SMC. The project is expected to be completed by May 2022. The company has invested Rs.0.78 crore in VWTPL as equity and Rs.43 crore has been advanced as loan to VWTPL. The loans advanced to VWTPL are expected to be repatriated to SFC in the course of 5-6 years. Higher than envisaged exposure to group companies is a key rating monitorable.

Key Rating Weaknesses
Moderate scale of operations:

The company reported TOI of Rs.278.73 crore in FY21 at the consolidated level, a drop of 12% on a high base of the previous year. The company reported PBILDT margin of 14% (PY: 15.20%). In 9MFY22, the revenue improved on the back of execution of the South Goa project. On an overall basis, the scale of operations continues to be at moderate levels SFC is however making efforts to diversify its revenue streams.

Moderately working capital intensive nature of operations:

The operations of the company are moderately working capital intensive on account of elongated credit period offered to the customers. The average collection period stood at 132 days in FY21 (PY: 121 days). 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 (60-70% by value and over 80% in terms of number of debtors). 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.

Liquidity: Strong

The liquidity position of the company is strong as evinced by cash and cash equivalents and fixed deposits of Rs.121.16 crore at the consolidated level as on December 31, 2021. The company does not have any long term debt repayment obligations.

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.

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, 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 Mr. Sandeep S Asolkar and Ms. 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 waste water treatment is achieved at a low cost that makes it suitable to recycle and reuse for industrial applications, gardening, agriculture etc.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
	Consolidated	Consolidated	Standalone
Total operating income	316.56	278.73	248.58
PBILDT	48.11	39.03	49.59
PAT	37.56	31.29	34.27
Overall gearing (times)	0.42	0.18	^
Interest coverage (times)	9.12	15.61	24.00

A: Audited; UA: Unaudited

^data not available

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	-	-	-	-	131.52	CARE A-; Stable / CARE A1
Fund-based - LT-Bank Overdraft	-	-	-	-	2.00	CARE A-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	22.25	CARE A-; Stable	1)CARE A-; Stable (07-Apr-21)	1)CARE A-; Stable (06-Apr-20)	-	1)CARE A-; Stable (27-Feb-19) 2)CARE A-; Stable (03-Apr-18)
2	Fund-based/Non-fund-based-Short Term	ST	-	-	-	-	-	1)Withdrawn (27-Feb-19) 2)CARE A1 (03-Apr-18)
3	Fund-based/Non-fund-based-LT/ST	LT/ST*	131.52	CARE A-; Stable / CARE A1	1)CARE A-; Stable / CARE A1 (07-Apr-21)	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)
4	Fund-based - LT-Bank Overdraft	LT	2.00	CARE A-; Stable				

*Long Term / Short Term

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 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: Bank Lender Details for this Company

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 complexity levels of the rated instrument: CARE Ratings Ltd. 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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