

## SFC Environmental Technologies Private Limited

April 28, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities (Cash Credit)	10.00 (10.00)	<b>CARE A-; Positive</b> <b>(Single A Minus; Outlook: Positive)</b>	Reaffirmed
Short term Bank Facilities (Letter of Credit/ Buyer's Credit)	40.00 (40.00)	<b>CARE A1</b> <b>(A One)</b>	Reaffirmed
Long-term/Short-term Bank Facilities (Bank Guarantee)	10.00 (10.00)	<b>CARE A-; Positive/CARE A1</b> <b>(Single A Minus; Outlook: Positive/A One)</b>	Reaffirmed
<b>Total Facilities</b>	<b>60.00</b> <b>(Rs. Sixty crore only)</b>		

*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, revenue visibility with growing order-book and competitive advantage developed over advanced sequential batch reactor technology for sewage treatment plant, by the company. 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 bills are 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 expected time and cost estimates and pertinently maintain operating margins are the key rating sensitivities.

### Outlook: Positive

The 'Positive' Outlook reflects CARE's expectation of improvement in the scale of operations in the medium term on the back of a strong order book position while maintaining operating margins. CARE also expects SFC to garner additional business in the backdrop of the focus of the Government on planned development requiring solutions on waste management.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### *Extensive experience of 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 having more than 20 years of experience in similar line of business.

##### *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. 409.62 crore as on April 25, 2017 (increased from Rs.151 crore as on March 15, 2016) for sewage treatment plant business and solid waste management business, which is 3.10 times the estimated total income for FY17, demonstrating a healthy revenue visibility.

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

**Robust credit profile**

Overall gearing of the company was comfortable at 0.33 times as on March 31, 2016. Further, Net debt as on March 31, 2016 is negative after factoring cash and bank balance of Rs. 83.57 crore, as on March 31, 2016. Also, owing to increase in profitability, interest coverage ratio improved to 26.62 times in FY16 as compared to 18.24 times in FY15.

**Comfortable liquidity position**

The liquidity position of the company continues to be at comfortable level as reflected in fixed deposits of Rs.83.54 crore held as on March 31, 2016 (Rs.52 crore as on March 31, 2015) against which overdraft facility is availed.

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

The Total Operating Income of the company have grown consistently over the past three years. It grew from Rs. 97.12 crore in FY15 to Rs.166.57 crore in FY16. However, the scale of operations continues to remain at moderate levels.

**Working capital intensive nature of operations:**

The operations of the company are inherently working capital intensive due to the elongated credit period availed by the customers. Nevertheless, the average collection period reduced to 101 days as compared to 163 days in FY15; however, more than 80% of debtors are LC backed.

**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 increased to Rs.20.39 crore as on March 31, 2016 from Rs.6.15 crore as on March 31, 2015. SFC also provided corporate guarantee towards the debt of the group company of Rs. 117 crore. Another similar project in Sough Goa is expected to start implementation 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](#)

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

**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 personal capacity. The company designs and supplies core equipment for sewage treatment plants. The company utilises an advanced sequential batch reactor technology for treating of water with Cyclic Activated Sludge Technology (also known as C-Tech). Although the patent on C Tech has expired on June 21, 2016 but with in-house technical know-how developed on usage and adaptation to Indian operations, the same has not impacted the business. C-Tech technology is utilised extensively for treating domestic sewage and industrial effluents. The company has completed more than 200 projects till date across India.

**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](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:**

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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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 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-; Positive
Fund-based/Non-fund-based-Short Term	-	-	-	40.00	CARE A1
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.00	CARE A-; Positive / 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-; Positive	1)CARE A- (21-Apr-16)	-	-	-
2.	Fund-based/Non-fund-based-Short Term	ST	40.00	CARE A1	1)CARE A1 (21-Apr-16)	-	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.00	CARE A-; Positive / CARE A1	1)CARE A- / CARE A1 (21-Apr-16)	-	-	-

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