

SFC Environmental Technologies Private Limited

February 27, 2019

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]	Reaffirmed
Long-term/Short-term Bank Facilities (Bank Guarantee/ Letter of Credit/Buyers' Credit)	45.00 (enhanced from 10.00)	CARE A-; Stable/CARE A1 [Single A Minus; Outlook: Stable/A One]	Reaffirmed
Short-term Bank Facilities (Letter of Credit/Buyers Credit)	-	-	Withdrawn
Total Facilities	55.00 (Rs. Fifty- five crore only)		

Details of facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of SFC Environmental Technologies Private Limited (SFC) continues to derive comfort from its experienced promoters, strong technical competence and robust order book providing revenue visibility. The ratings also positively factor the company's initiative of diversifying itself into the solid waste management business (through execution of the North Goa and South Goa projects), the strong financial risk profile of the company characterized by 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 the company's moderate scale of operations, working capital intensive nature of business and 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).

The company's ability to efficiently manage its working capital cycle, execute the South Goa project within the stated time and cost estimates as well as improve its operating margins form the key rating sensitivities.

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 13 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.

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. 537 crore as on December 31, 2018 (as compared to Rs. 235 crore as on December 31, 2017). The orders received pertain to sewage waste water treatment projects which is around 3.56 times the revenue earned during FY18, thus demonstrating a healthy revenue visibility.

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. 78 crore as on March 31, 2018 (as compared to Rs.85 crore as on March 31, 2017). SFC avails overdraft facilities that are fully backed by fixed deposits. Also, fixed deposits are lien marked as margin (10%) for availing the fund based/non-fund based limits of Rs. 45 crore. Post adjusting the lien marked fixed deposits against the overdraft facility availed, the net debt balance stands at Rs. 17 crore as on March 31, 2018 (as compared to Rs.8 crore as on March 31, 2017). Also during the past 12 months, amongst the total sanctioned cash credit limits of Rs. 10 crore, SFC has utilized only 8% and 4% of the same in the month of March 2018 and December 2018 respectively. The overall gearing ratio (adjusted for the fixed deposits lien marked) continues to be comfortable at 0.20x as on March 31, 2018 (as compared to 0.12x as on March 31, 2017) while the interest coverage ratio was 8.35x in FY18 (as compared to 11.02x in FY17).

Investment in solid waste treatment plants:

During FY16, SMC Infrastructure Private Limited (SMC) was awarded two contracts to undertake solid waste management projects in North Goa and South Goa respectively. The projects are being executed by Hindustan Waste Treatment Private

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

Limited (HWTPL), a joint venture created, wherein SFC holds 49% through its wholly owned subsidiary 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. 36.4 crore. In addition to the equity infused by SFC (through its subsidiary Navitas), HWTPL had availed an initial loan of Rs. 110 crore (Rs. 80 crore outstanding as on December 31, 2018). The loan is jointly and severally guaranteed by SMC and SFC. Accordingly, incorporating the said guarantee, the overall gearing ratio was 1.01x as on March 31, 2018 (as compared to 1.23x as on March 31, 2017). The construction of the South Goa project is expected to commence from FY20.

Key Rating Weaknesses

Moderate scale of operations

The total operating income of the company grew by 7% on y-o-y basis to Rs. 151 crore in FY18 (as compared to Rs. 141 crore in FY17). The PBILDT margins however de-grew by 708 bps to 20.83% in FY18 (as compared to 27.91% in FY17), mainly on account of higher preliminary assessment charges incurred during Q4FY18 as well as due to foreign exchange loss incurred on weakening of the Indian currency. On an overall basis, 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 offered to the customers. The average collection period has further increased to 214 days in FY18 (as compared to 158 days in FY17). Amongst the total debtors outstanding as on March 31, 2018 amounting to Rs. 98 crore, Rs. 75 crore was recovered as on January 2019. 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.

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 13 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 Enviopro 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. 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)	FY17 (A)	FY18 (A)
Total operating income	141	151
PBILDT	39	31
PAT	21	16
Overall gearing (times)*	0.12	0.20
Interest coverage (times)	11.02	8.35

A: Audited; *Adjusted for Fixed deposits lien marked against overdraft facility availed

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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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	-	-	-	-	Withdrawn
Fund-based/Non-fund-based-LT/ST	-	-	-	45.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	10.00	CARE A-; Stable	1)CARE A-; Stable (03-Apr-18)	1)CARE A-; Positive (28-Apr-17)	1)CARE A- (21-Apr-16)	-
2.	Fund-based/Non-fund-based-Short Term	ST	-	-	1)CARE A1 (03-Apr-18)	1)CARE A1 (28-Apr-17)	1)CARE A1 (21-Apr-16)	-
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	45.00	CARE A-; Stable / CARE A1	1)CARE A-; Stable / CARE A1 (03-Apr-18)	1)CARE A-; Positive / CARE A1 (28-Apr-17)	1)CARE A- / CARE A1 (21-Apr-16)	-

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CIN - L67190MH1993PLC071691