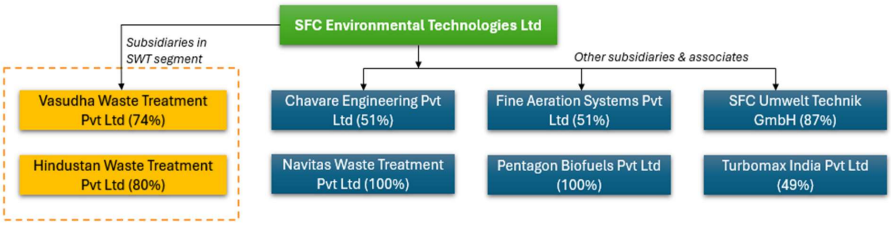
Credit Information Memorandum – SFC Environmental Technologies Limited ("SFC")

Date: 31st March 2025

I. Company / Group Overview:

- Incorporated in 2005 as Indian subsidiary of Austria based SFCU GmbH.
- In 2007, Mr. Sandeep Asolkar along with 6 other partners entirely bought out SFCU GmbH's stake, thereby shifting base to India.
- Presently, SFC is based out of Vashi, Navi Mumbai. Promoters hold 48% stake, remaining 52% held by external stakeholders.
- Company is engaged in providing environmental technology with expertise in wastewater treatment and solid waste management solutions.
- 3 key business segments:
  - **a. Wastewater Treatment –** supplies Cyclic Activated Sludge Technology (C-Tech) – sequential batch reactor technology that is used extensively for treating industrial effluents and sewage. Contributes ~80-85% of consolidated revenues.
  - **b. Solid Waste Treatment (SWT) –** in-house developed process, OREX (Organic Extraction Technology) – separates mixed municipal waste into organic (wet) and inorganic (dry) fractions in a single step. Contributes 10-15% of revenues.
  - **c. Agro Waste to Energy –** newly launched segment, focused on converting agro waste into renewable energy. Still in nascent stage.
- Project tenders are floated by government authorities /municipal bodies / Urban Development Department, Health Department etc. SFCs customers are EPC contractors viz. Enviro Control Pvt Ltd (CARE A+), GVPR Engineers Ltd (ICRA A+), Khilari Infrastructure Pvt Ltd (CARE BBB+), L&T, Shapoorji etc. who bid for the govt. tenders.
- **External Rating:** CARE A (Stable, revised from A- in April 2024).
- Was in process of raising funds via IPO (fresh issue of Rs.185 Cr and OFS of ~Rs.350 Cr) – fund utilisation ~Rs.100 Cr towards working capital requirements, ~Rs.60 Cr to prepay existing group debt and balance towards general corporate purposes. DRHP was filed in Dec'24 - withdrew IPO papers in Feb'25 due to unfavourable market conditions. Company is looking to re-file DRHP in the next 3-6 months.

Group Organogram

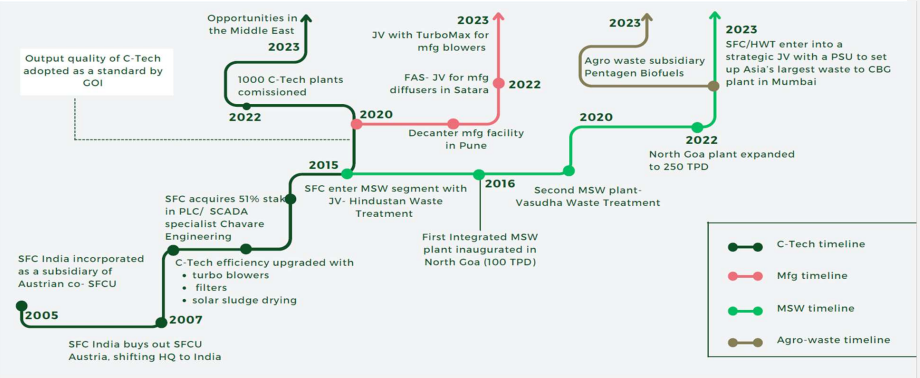


Brief Note on subsidiaries / associates:

- **Vasudha Waste Treatment Pvt Ltd & Hindustan Waste Treatment Pvt Ltd –** JVs with Goa Municipal Corporation for Solid Waste Management, two plants in North & South Goa respectively.
- **Chavare Engineering Pvt Ltd –** partnered with Chavare family – expertise in PLC / Automation which is critical in C-Tech.
- **Turbomax India Pvt Ltd –** JV with Turbomax South Korea to produce turbo blowers used in C-Tech.
- **Fine Aeration Systems Pvt Ltd –** fabrication expertise, manufactures & provides diffusers used in C-Tech.
- **Pentagon Biofuels Pvt Ltd –** subsidiary incorporated with focus on Agro waste to energy.
- **SFC Umwelt Technik Austria –** oversees C-Tech & C-Membrane business in Austria.

The above associates / subsidiaries have been recently incorporated in FY2022 and FY2023 with the goal of backward integrating the manufacture of key C-Tech components in India instead of importing them from external suppliers, thereby achieving economies of scale.

MILESTONES



II. Key Management and Board of Directors

Name of Director	Designation	Date of Appointment	% stake in SFC (along with PAC)	Relationship with Promoter	Remarks / Description
Mr. Sandeep Asolkar	Managing Director & Promoter	29th March 2005	39.1%	Promoter	• Has 2+ decades of experience in waste management. • Holds Engineering Degree from Mumbai University, Advanced course in Environment Engineering from Cranfield University, advanced Management programs from IIM-A and Columbia University.
Mr. Sarvesh Kumar Garg	Executive Director & Co-founder	12th June 2020	5.9%	Promoter	• Has 2+ decades of experience in wastewater treatment. • Holds degree in Environmental Science. • Is also a Director in Turbomax India & Vasudha Waste Treatment Pvt Ltd.
Mr. Saketchandrasingh P Dhandoriya	Additional Executive Director	5th September 2024	9.0%	Promoter	• Holds a Diploma in Mechanical Engineering from Board of Technical Examination, Maharashtra. • 25+ years of experience in environmental engineering. • Has been associated with SFC since 2005, previously worked with Ion Exchange (India) Ltd.
Mr. Chandrakant V Gogri	Non-Executive Director	27th October 2023	*24.0%	Unrelated	• Founding promoters of Aarti Group (Aarti Industries) • Holds Engineering Degree from Institute of Chemical Technology (formerly UDCT) • Expertise in process & project development, operations, marketing in the chemical industry. • Director in other entities viz. Aarti Surfactants Ltd, Parakh Hospitals Pvt Ltd etc.
Mr. Dilip D Karambelkar	Independent Director	14th August 2024	0.0%	Unrelated	Holds bachelor's degree in science and master's degree in Business Administration from Shivaji University.
Mr. Nandikishor T Joshi	Independent Director	14th August 2024	0.0%	Unrelated	• Holds master's degree in science, doctorate degree in philosophy (science), Mumbai University. • Founder of Padmaja Areo Biologicals Pvt Ltd.
Ms. Neha Rajen Gada	Independent Director	14th August 2024	0.0%	Unrelated	• Associate Member of ICAI • Previously worked as Manager for BSE and is a co-founder of Infineon Capital Advisors Pvt Ltd.
Mr. Satish C Deshpande	Independent Director	14th August 2024	0.0%	Unrelated	• Holds a bachelor's degree in engineering from Nagpur University, master's degree in technology (Public Health Engineering) from Nagpur University & is a Fellow of the Institution of Engineers (India). • Has 36+ years of experience, previously served as CEO of OPT Engineers Pvt Ltd, Chief Engineer & General manager with City & Industrial Development Corporation of Maharashtra Ltd.

**Held by Mr. Gogri and family, friends and relatives.*

III. Shareholding Pattern as at March 31, 2024:

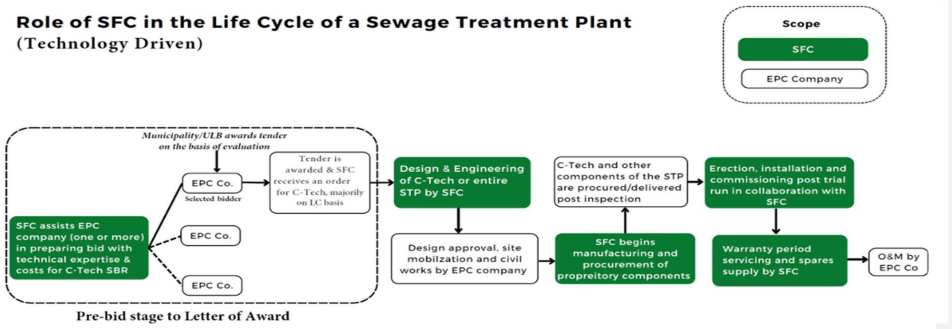
Name of the Shareholders	% Held
Sandeep Asolkar	14.5%
Sandeep Asolkar jointly with Priya Asolkar	19.4%
Sakeshtchandrasingh Dhandoriya	9.0%
Asolkar Tradecraft Pvt Ltd	^5.3%
Total Promoter Holding (A)	**48.2%**
Other External Individuals / Entities (B)	***51.8%**
- Chandrakant Gogri	0.9%
- Jaya Chandrakant Gogri	6.2%
- Parindu Bansilal Gogri Trust	0.2%
- Sarvesh Kumar Garg	5.9%
Total (A + B)	**100.0%**

**~24% is held by the Gogri Family (Aarti Industries Group) through family / friends / relatives / other associates*
^5.3% held by Asolkar Tradecraft Pvt Ltd is currently pledged.

IV. Business Model of SFC Environmental Technologies Ltd:

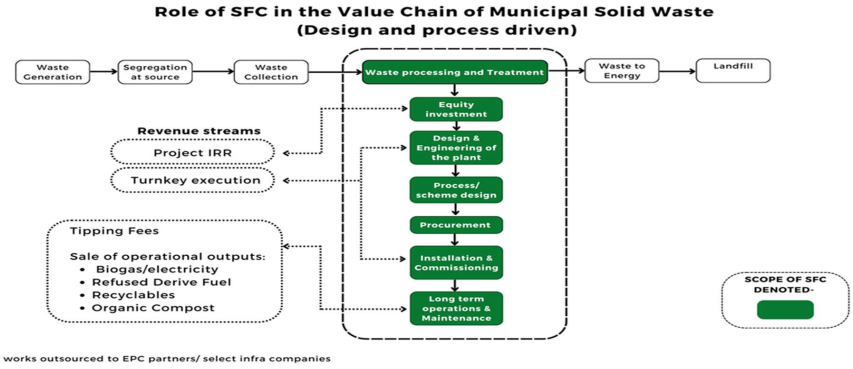
a. Waste Water Treatment (WWT)

- SFCs proprietary technology for WWT is C-Tech (Cyclic Activated Sludge Treatment) which is the latest generation Sequential Batch Reactor (SBR) used extensively for treating domestic sewage & industrial effluents to achieve recyclable quality water at low operating & capital cost.
- SFC undertakes design, engineering, & after sales services of C-Tech products to Sewage Treatment Plants (STPs).
- Key components used in C-Tech SBR include decanters for separating treated water, diffusers for aeration, PLC panel blowers for automating the treatment process, and fibre filters – SFC has exclusive partnerships with experts manufacturing these components in India (as SPVs / JVs / Associate entities).
- Has provided technology to 1000+ STPs across India, collectively treating ~14,820 million litres of wastewater daily.
- 80% market share in the SBR segment. Peers / Competitors in WWT segment include Thermax Ltd, Ion Exchange, Praj Industries, Xylem Inc. etc.
- WWT contributes ~80-85% of SFC's consolidated revenues.



b. Solid Waste Treatment (SWT) / Solid Waste to Energy

- Forayed into SWT in 2014, offering technology solutions for solid waste treatment comprising design, engineering, installation and O&M.
- Utilises in-house developed process called OREX (Organic Extraction Technology) that designed to separate biodegradable organics from inorganic materials and lignocellulosic fibres from mixed municipal wastes – enhances efficiency of biogas production.
- Adoption of OREX business model enables multiple revenue streams viz. revenue from project execution, generation and sale of biogas energy, sale of recyclable materials / compost, O&M services, tipping fees.
- Presently, 2 SWT plants in North & South Goa through SPVs - Hindustan Waste Treatment Pvt Ltd (250 TPD + 25 TPD additional capacity) & Vasudha Waste Treatment Pvt Ltd (100 TPD + 50 TPD additional capacity) in partnership with Goa Waste Management Corporation. These plants aggregately handle 425 tons of waste on a daily basis, with the goal of generating biogas compost and recyclable materials.
- Plans to set up a new SWT plant in Chandigarh (~750 TPD) at a total Project Cost of Rs.500 Cr to be incurred in a phased manner over the next 2-2.5 years– SFC are currently L1 bidders for the project.
- SWT contributes ~10-15% of SFC revenues.



ORDER BOOK:

- As at September 2024, SFC had an order book of Rs.631 Cr in the WWT segment across 222 ongoing and upcoming projects – revenue visibility of ~12-15 months.
- SFC has long-standing relations with customers as evidenced by repeat business contracts (tabled below).

- Top 10 customers contribute ~60-70% of operating revenues and include well established players viz. Enviro Control Pvt Ltd, GVPR Engineers Ltd, Vishvaraj Environmental Pvt Ltd, Ramky Infrastructure Pvt Ltd, Khilari Infrastructure Pvt Ltd to name a few.

Fiscal Year / Period	Revenue from repeat customers (Rs. Cr)	% to total revenues
FY 2022	242	62%
FY 2023	342	83%
FY 2024	469	90%
Q1 FY2025	38	75%

V. Financial Analysis of SFC Environmental Technologies Ltd

Statutory Auditors: GBCA & Associates LLP

(A – Audited, UA – Unaudited)

1. Standalone Financial Snapshot

Profit & Loss Particulars (Rs. Cr)	FY20 (A)	FY21 (A)	FY22 (A)	FY23 (A)	FY24 (A)
Operating Revenues	235	195	389	412	522
Other Income	11	9	16	15	24
Total Revenues	**247**	**204**	**405**	**427**	**546**
Gross Profit	96	75	163	182	256
Gross Margins	41%	38%	42%	44%	49%
EBIDTA	**42**	**31**	**101**	**115**	**172**
EBIDTA %	***18%***	***16%***	***26%***	***28%***	***33%***
Finance Costs	4	2	2	3	7
Depreciation	3	3	4	5	7
PAT	34	27	81	91	135
PAT %	*15%*	*14%*	*21%*	*22%*	*26%*
GCA	38	29	86	95	142
Interest Coverage	*10.00*	*19.06*	*40.74*	*34.48*	*26.04*

Balance Sheet Particulars (Rs. Cr)	FY20 (A)	FY21 (A)	FY22 (A)	FY23 (A)	FY24 (A)
Networth	220	247	325	388	513
Total Debt	**75**	**17**	**21**	**46**	**76**
Long Term	0	0	0	0	8
Short Term	75	17	21	46	69
Other Non-Current Liabilities & Prov.	0	0	-2	2	5
Trade Payables	25	43	63	85	97
Other Current Liabilities & Prov.	33	58	41	56	50
Total Equity & Liabilities	**353**	**366**	**448**	**576**	**741**
Net Fixed Assets	27	25	49	48	58
Non-Current Investment	47	62	36	40	60
Long-term Loans & Advances	29	26	44	50	0
Other Non-Current Assets	0	0	22	29	18
Inventories	11	11	21	42	57
Trade Receivables	60	88	112	178	281
Cash & Cash Equivalents	**176**	**128**	**109**	**115**	**173**
Short-term Loans & Advances	3	25	33	38	83
Other Current Assets	0	0	23	36	12
Total Assets	**353**	**366**	**448**	**576**	**741**
Debt / Equity	*0.34*	*0.07*	*0.06*	*0.12*	*0.15*
Debt / EBIDTA	*1.78*	*0.56*	*0.21*	*0.40*	*0.44*
Inventory Days	*17*	*20*	*19*	*37*	*40*
Receivable Days	*93*	*164*	*105*	*158*	*197*
Creditor Days	*38*	*81*	*59*	*75*	*68*
Working Capital Days	*71*	*103*	*65*	*120*	*168*
RoCE	*19%*	*13%*	*31%*	*30%*	*34%*

2. Consolidated Financial Snapshot

Profit & Loss Particulars (Rs. Cr)	FY20 (A)	FY21 (A)	FY22 (A)	FY23 (A)	FY24 (A)		Q1 FY25 (UA)	Q1 FY24 (UA)
Operating Revenues	315	273	497	520	658		94	71

Other Income	12	8	17	11	20		7	2
Total Revenues	**327**	**281**	**514**	**531**	**679**		**101**	**73**
Gross Profit	118	104	191	218	320		46	25
Gross Margins	38%	38%	38%	42%	49%		49%	35%
EBIDTA	**46**	**33**	**106**	**124**	**193**		**9**	**3**
EBIDTA %	***15%***	***12%***	***21%***	***24%***	***29%***		***10%***	***5%***
Finance Costs	5	2	4	4	10		3	1
Depreciation	4	3	5	6	12		4	2
PAT	36	26	85	95	144		7	3
PAT %	*12%*	*10%*	*17%*	*18%*	*22%*		*7%*	*4%*
GCA	40	29	90	101	157		11	5
Interest Coverage	*9.05*	*13.65*	*25.51*	*34.47*	*19.24*		*3.13*	*4.25*

Balance Sheet Particulars (Rs. Cr)	**FY20 (A)**	**FY21 (A)**	**FY22 (A)**	**FY23 (A)**	**FY24 (A)**		**Q1 FY25 (UA)**	**Q1 FY24 (UA)**
Networth	228	259	339	406	561		555	410
Total Debt	**80**	**23**	**38**	**46**	**131**		**88**	**85**
Long Term	1	1	1	0	46		57	0
Short Term	79	23	37	46	85		31	84
Other Non-Current Liabilities & Prov.	1	7	15	16	25		24	17
Trade Payables	40	70	80	108	111		69	56
Other Current Liabilities & Prov.	44	59	46	63	78		46	29
Total Equity & Liabilities	**394**	**418**	**519**	**640**	**906**		**783**	**596**
Net Fixed Assets	35	34	59	60	98		109	77
Non-Current Investment	48	68	49	55	5		5	37
Long-term Loans & Advances	7	4	0	6	8		8	0
Other Non-Current Assets	2	2	41	57	67		59	79
Inventories	28	40	46	74	108		110	84
Trade Receivables	83	114	169	220	375		242	159
Cash & Cash Equivalents	182	138	118	125	189		178	138
Short-term Loans & Advances	4	13	9	2	20		30	6
Other Current Assets	5	6	28	42	37		40	16
Total Assets	**394**	**418**	**519**	**640**	**906**		**782**	**597**
Debt / Equity	*0.35*	*0.09*	*0.11*	*0.11*	*0.23*		*0.16*	*0.21*
Debt / EBIDTA	*1.73*	*0.70*	*0.36*	*0.37*	*0.68*		*2.33*	*6.06*
Inventory Days	*33*	*54*	*34*	*52*	*60*		*106*	*108*
Receivable Days	*96*	*152*	*124*	*154*	*208*		*235*	*206*
Creditor Days	*46*	*94*	*59*	*76*	*61*		*67*	*73*
Working Capital Days	*83*	*113*	*98*	*131*	*206*		*274*	*241*
RoCE	*20%*	*13%*	*31%*	*31%*	*34%*		*2%*	*1%*

RoCE for Q1 FY25 and Q1 FY24 has not been annualised

Comments on Consolidated Financials:

a. REVENUE

- Operating revenues have grown at a CAGR of 34% over the last 3 years. FY24 revenues grew 27% to Rs.658 Cr from Rs.520 Cr in FY23 attributed by growing order book in line with growing business opportunities in this relatively untapped sector. WWT Order book as at Sep'24 stood at Rs.631 Cr providing comfort on revenue visibility over the next 12-15 months. Increasing government initiatives and overall lower treatment capacities against higher volume of sewage & waste generation are expected to provide SFC ample opportunities to grow revenues in the medium to long-term.
- WWT contributes ~80-85% of consolidated revenues, balance 15-20% comes from the SWT segment & other operating revenues. Segment-wise revenues are as below:

Revenue Split	**FY22**		**FY23**		**FY24**		**Q1 FY25**	
	Rs. Cr	**%**	**Rs. Cr**	**%**	**Rs. Cr**	**%**	**Rs. Cr**	**%**
Wastewater Treatment	362	73%	446	86%	608	92%	76	80%
Solid Waste Management	135	27%	73	14%	50	8%	18	20%
Total	**497**	**100%**	**520**	**100%**	**658**	**100%**	**94**	**100%**

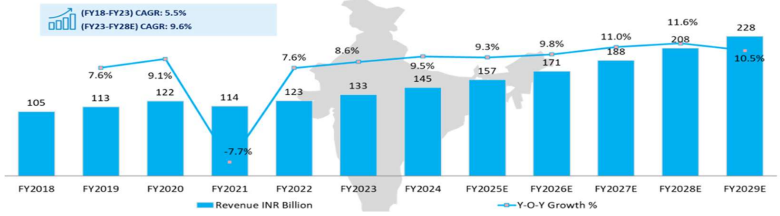
- As at Q1 FY25, SFC achieved revenues of Rs.94 Cr (33% growth from Rs.71 Cr in Q1 FY24)
- SFC's business is seasonal in nature. ~77% of revenues get billed in the latter half of the fiscal.

Brief Industry Overview and Total Addressable Market in India:

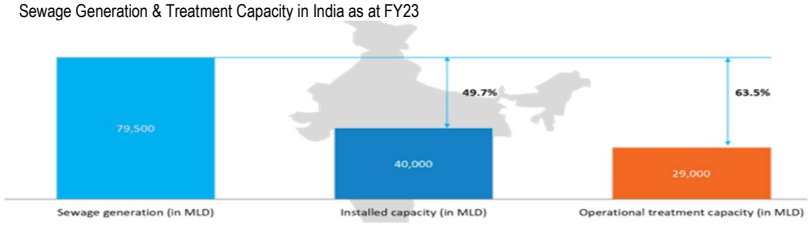
I. Wastewater Treatment Industry (WWT)

- Maintained a CAGR of 5.5% over the last 5 years; expected to accelerate to 9.6% growth in the next 5 years.
- **Total WWT Market in Rs.250 Bn** bifurcated into the following:
  i. Municipal Segment Rs.167 bn – Municipal water Rs.60 bn + Municipal wastewater Rs.107 bn
  ii. Industrial Segment Rs.83 bn – Industrial water Rs.46 bn + Industrial wastewater / effluents Rs.38 bn

- Wastewater treatment market size FY2019 to FY2029 (estimate)



- Sewage Generation & Treatment Capacity in India as at FY23



II. Solid Waste Management / Treatment (SWM)
- Waste Generation 62 million tons p.a. → Waste Collection 43 million tons p.a. (~69%) → Waste Treatment 12 million tons p.a. i.e. ~20% of waste generated in India annually.
- Total estimated energy generation potential from urban & industrial solid organic waste in India is ~5690 MW.

b. PROFITABILITY

EBIDTA margins have improved y-o-y. Over the last 3 fiscals, margins have improved from 21% in FY22 to 29% in FY24. This is due to lower import purchases along with growing revenues. SFC has a strong market position in the SBR segment (80% market share). The company's strategy to lower dependency on imports has led to setting up of subsidiaries / associate entities in India which will manufacture key components that find usage in C-Tech for wastewater treatment. This backward integration is expected to benefit SFC's profitability in the long-term as well.

c. NET FIXED ASSETS

Increase in NFA from Rs.60 Cr in FY23 to Rs.98 Cr in FY24 is attributed to acquisition of subsidiary, Hindustan Waste Treatment Pvt Ltd. During FYF24, SFC increased stake in HWTPL from 49% to 80%.

d. LEVERAGE

- SFC's total bank debt o/s as at FY24 stood at Rs.131 Cr (TL + FB WCDL) which increased from previous fiscal's o/s Rs.46 Cr.
- Increase in TL o/s during FY24 - In Dec'23, SFC's subsidiary entity, Vasudha Waste Treatment Pvt Ltd, availed term loans from Axis Bank aggregating to Rs.62 Cr (o/s in Sep'24 Rs.56 Cr) which were utilised to repay the unsecured loans + accrued interest extended by SFC for SWM business operations.
- Working capital limits o/s in FY24 Rs.85 Cr increased from FY23 in line with growth in the business.
- Consolidated networth stood at Rs.561 Cr as at FY24 – comfortable capital structure with Debt / NW at 0.23x.
- Improving EBIDTA margins has led to comfortable leverage position – FY24 Debt / EBIDTA stood at 0.68x. Q1 FY25 Debt / EBIDTA is high at 2.33x due to the seasonal nature of billings & revenue recognition as mentioned earlier. The same is expected to correct at the end of FY25.

e. **WORKING CAPITAL CYCLE**

- As mentioned earlier, 77% of SFC's billings is done in the latter half of the year with a bulk of the revenues being recognised only in Q4 of each fiscal.
- SFC offers elongated credit period to its customers (avg. 6-9 months) which is inherent to the nature of business in this segment, as can be verified for other peers in the industry as well – operations are therefore working capital intensive.
- Working capital days increased from 131 days in FY23 to 200 days in FY24 primarily due to increase in receivable days. Stretched credit period poses significant threat to the company's ability to collect dues from clients on timely basis. However, it is pertinent to note the following:
  1. Out of Rs.375 Cr of receivables o/s as at FY24, Rs.45 Cr pertains to recoveries from Goa Municipal Corporation w.r.t SWM plants set up in Goa on annuity model. Total capex incurred by SFC for this project is recoverable annually in piecemeal instalments with bulk of the payments due in FY26-27.
  2. For the balance receivables, ~50% are LC backed, thereby minimising the credit risk involved.
  3. ~76% of receivables are due within 1 year.
  4. There have been no bad debts and write offs in the last 4 fiscals.

Debtors Ageing as at June 30, 2024:

Particulars (Rs. Cr)	Unbilled	Not Due	< 6months	6 mos - 1 yr	1 - 2 yrs	2-3 yrs	> 3 yrs	TOTAL
Gross Receivables	1	0	157	25	23	34	12	252

Less: Allowance for expected credit loss	0	0	0	0	0	0	9	9
Net Receivables	1	0	157	25	23	34	3	242
% Ageing Net Receivables	***1%***	***0%***	***65%***	***10%***	***9%***	***14%***	***1%***	

f. LIQUIDITY

SFC has a strong liquidity position. Gross Cash Accruals from business as at FY24 stood at Rs.157 Cr. Additionally, company has fixed deposits ~Rs.180 Cr which are lien marked as security against WCDL OD limits. Utilisation of fund based, and non-fund-based limits remained comfortable at < 30% as at June 30, 2024 and therefore has the ability to draw more limits in case of requirement. These sources are sufficient to fund the principal + interest obligations Rs.1 45 Cr in FY25 and Rs.12 Cr in FY26 (includes repayment of NCDs part of this transaction).

g. CONTIGENT LIABILITIES (STANDALONE)– Stood at Rs.88 Cr as at FY24 – CGs provided by SFC given on behalf of subsidiaries.

h. CASH FLOW FROM BUSINESS

In FY24, SFC's Gross Cash Accruals and incremental increases in WCDL limits were largely utilised to fund working capital (inventories and trade receivables) and to extend loans / advances to subsidiaries for business operations. Excess cash generated from the business was invested in FDs ~Rs.60 Cr.

Group Debt Profile as at September 2024:

Term Loans:

Name of the Lender	Entity	Sanction (Rs. Cr)	O/s (Rs. Cr)
Axis Bank	SFC Environmental Tech	10	8
	Vasudha Waste Treatment Pvt Ltd	62	56
Total Term Loans		**72**	**64**

Working Capital Loans:

	Sanction (Rs. Cr)			O/s (Rs. Cr)		
WCDL & OD Facilities	**FB**	**NFB**	**Total**	**FB**	**NFB**	**Total**
At SFC (Standalone)	147	210	358	39	49	88
At Subsidiaries	21	16	37	9	10	20
Total WCDL	**168**	**226**	**395**	**48**	**59**	**108**

Notes:

- **Total Group Debt O/s Rs.174 Cr** (including inter corporate loans ~Rs.2 Cr) as at September 30, 2024
- Working capital lenders include Kotak Mahindra Bank, ICICI Bank, Axis Bank and Bank of India.
- WCDL limits are secured by FDs, current assets and movable fixed assets.
- Term loans from Axis Bank at Vasudha Treatment Pvt Ltd were utilised to fund the repayment of unsecured loans + accrued interest payable to parent co. SFC Environmental Tech. that was availed to fund the subsidiary's business operations.

VI. EXISTING NCD TERMS:

Description	Details
Issuer	Asolkar Tradecraft Pvt Ltd (ATPL; 100% held by Mr. Sandeep Asolkar & his wife, Priya)
Promoters	Mr. Sandeep Asolkar & Ms. Priya Asolkar
Instrument Type	Secured; Unlisted & Unrated NCDs
Issue Size	Original - Rs.55 Crores; Subscribed – Rs.45 Crores
Subscribers / Debenture Holders	Arka Fincap Rs.35 Cr; Oxyzo Financial Services Rs.10 Cr
Debenture Trustee	Mitcon Credentia Trusteeship Services Ltd
Tenor	36 months from initial date of investment; Balance Tenor as on 24th March 2025 is ~2 years
Call Option	On / before 15 months from Deemed Date of Allotment with prepayment interest & premium. After 15 months until final maturity with redemption premium and no prepayment interest.
Date of Allotment	27th February 2024
Date of Maturity	26th February 2027
Return	• 10% p.a.p.m & 4.25% compounded monthly payable at 33rd and 36th months (total 14.25% compounded monthly) • 1% one-time upfront interest
Purpose / End Use	Acquisition of upto 5.7% stake in SFC Environmental Technologies Ltd & balance towards general corporate purposes
Redemption Schedule	**Month** / **% of POS** 18th Month: 5% 21st Month: 5% 24th Month: 15%

	30th Month: 20% 33rd Month: 20% 36th Month: 35%
Security	1. Pledge of shares held by Issuer in SFC Environmental Technologies Ltd (pledge value to be min. 1.25x throughout tenor of investment); pledge of shares of Issuer held by Promoters. 2. Personal Guarantee of Promoter, Mr. Sandeep Asolkar and his spouse, Ms. Priya Asolkar 3. Mortgage of Residential Bungalow at Anushakti Nagar, Deonar, Mumbai valued at ~Rs.20 Crores. 4. Guarantors shall maintain liquid investment of Rs.10 Crores at all times – part of financial covenants in DSA; no separate NDU executed. 5. Escrow of Issuer receivables in favour of Debenture Trustee 6. 3 months' DSRA to be created in May 2025 and lien marked in favour of Debenture Trustee 7. ISRA of Rs.1.25 Crores 8. UDC and DPN for Investment Amount
Exit Mechanism	IPO Proceeds of SFC Environmental Technologies Ltd
Key Terms of Debenture Subscription Agreement	
Majority Debenture Holders (DH)	DH holding minimum 75% of the NCDs
Mandatory Redemption (MR)	**MR1:** change in business environment of SFC adversely **MR2**: downward revision in SFC's rating 2 or more notches
Prepayment Interest Rate	3% p.a.p.m
Financial Covenants	**Covenant (Standalone financials)** / **Parameter** / **Testing Frequency** Net Debt / Net worth / =< 1x / Semi annual Tangible NW / Min. Rs.393.81 Cr / Semi annual NW of Mr. Sandeep / Min. Rs.45 Cr / Annual IPO of SFC / / to be done before 33 months from Deemed date of allotment Guarantors to maintain liquid investment / Rs.10 Cr / Currency of debenture tenor
Credit Rating	SFC to maintain min. rating BBB+ and 2 or more notches downgrade will lead to mandatory redemption
Shareholding Covenants	1. No change in shareholding without Debenture Holder consent 2. Mr. Sandeep Asolkar & Mrs. Priya Asolkar (Promoters 1& 2) to hold 100% stake in Issuer 3. Promoters 1 & 2 to exercise control over Issuer 4. Promoters 1 & 2 to remain KMP of SFC and Issuer 5. Promoters 1 and / or Promoter 2 to jointly or severally hold at least 26% stake in SFC
Subordination	Subordination of all promoter / guarantor / subsidiary and associate, other group entities' loans / advances/ pref. shares / equity
Assignment / Transfer	Debentures can be transferred by holders, should not be competitor of Issuer in normal scenario / should not be barred from making such purchase.
Key EOD Covenants	**1. Non-Payment:** Issuer / any Obligor fails to pay any Secured Obligation on its due date / any amounts due under/in relation to the Debentures as and when it becomes due, unless, in case of Interest obligation, it can be recovered from ISRA. No cure period provided for this EOD. **2. Insolvency** **3. Security:** failure to create & perfect security in accordance with Transaction Documents; any security ceases to be in full force or effect / or is not created in favour of Debenture Trustee. Cure Period 7 Days **4. Change of Control:** a) If there is any change of control (incl. management control) or ownership / shareholding of Issuer without prior notice to Trustee (No cure period). b) If Promoters 1 and / or Promoter 2 cease to be KMPs of SFC AND / OR if Promoter 1 and / or Promoter 2 and/or Issuer cease to be promoter of SFC of SFC and/or cease to jointly or severally hold at-least 26% shareholding in the total issued and paid-up capital of SFC, without prior written consent of Debenture Trustee (acting on the instructions of Majority Debenture Holders) – Cure Period 7 days.

Transaction Overview:

- Arka Fincap AIF has participated in above transaction, current o/s is Rs.35 Cr. They have approached us to buy said NCDs – we are looking to take over Rs.20 Cr. They are simultaneously selling their balance Rs. 15 Cr to Oxyzo Financial Services.
- NCDs were subscribed to in February 2024 with a 36-month tenor; balance tenor as on date is ~22 months.
- **Status of Document Execution & Security Creation & Perfection:**

I. List of Executed Documents:

Executed Documents	Received
DSA, DTD and PAS 4	✔
Deed of Hypothecation	✔
Deed of Pledge	✔
Personal Guarantee	✔
Executed & Registered Mortgage Deed	✔
Escrow Statements & Agreement	✔
LOC DPN	✔
UDCs and PDCs + cover letter	✔
Debenture Trustee Appointment Letter	✔

Commented [PI1]: Table of security creation & filing status and table of all executed documents in our custody to be inserted here after closing all pendencies with Arka

Trustee Custody Confirmation	✔

II. Security Creation & Perfection Status – Filings Summary

Security	ROC Filing (CHG)	CERSAI Filing	IU IBC Filing	PMR / Share Certificate
SFC Shares pledged by ATPL	✔	N.A.	awaited	✔
ATPL Shares pledged by Promoters	N.A.	N.A.	awaited	✔
Mortgage of Deonar Bungalow	N.A.	awaited	awaited	N.A.
ISRA Rs.1.25 Crores	✔	N.A.	awaited	N.A.
Escrow of Receivables / Accounts	✔	N.A.	awaited	N.A.
Hypothecation of ATPL receivables	✔	✔	awaited	N.A.

We have received an email from the Debenture Trustee dated 31st March 2025, confirming security creation & perfection and filing of documents with relevant documents.

Other Key Documents received & review:

1. Title Search Report & Valuation Report w.r.t Deonar Bungalow
2. NOC from Saras Baug CHS for creation of mortgage of abovementioned property.
3. Gaurav Jain's (IBBI Registered) Valuation of SFC dated 5th September 2024
4. CAMs Statement of Account dated 24th March 2025 of Investments held by Ms. Priya Asolkar amounting to ~Rs.16 Cr
5. End Use Certificate from CA confirming utilisation of Investment proceeds.
6. Insurance policy copy of Deonar Bungalow
7. Insurance policy copy of PG Providers – awaited
8. Kotak Bank FD receipt & email for ISRA Rs.1.25 Cr

Key CPs to close this transaction are as follows:

1. Need to speak to Trustee to confirm security creation status.
2. Site Visit and Promoter Meeting to be done

KEY TERMS OF PROPOSED TRANSACTION:

Description	Details
Instrument Type	Secured; Unlisted & Unrated NCDs
ISIN	INE0TWY07011
Face Value of NCDs	Rs.20 Crores (2,000 NCDs of Face Value Rs.1 lac each)
Tenor	~2 years
Purchase Price & Yield	Purchase at PAR + accrued premium; Yield 15.22%
End Use	Partial buyout of Arka Fincap AIF exposure
Redemption Schedule	

Month	% of POS
18th Month – Aug'25	5%
21st Month – Nov'25	5%
24th Month – Feb'25	15%
30th Month – Aug'26	20%
33rd Month – Nov'26	20%
36th Month – Feb'27	35%

VII. Strengths & Risks – on SFC Environmental Technologies Ltd:

1. **Key Strengths:**

- **Increasing demand for waste management & wastewater treatment:** rapid urbanization and industrial expansion has led to alarming pollution levels and significant waste management and water treatment challenges. Increasing demand for water in industrial sectors viz. textiles, pharmaceuticals etc., government's focus on wastewater treatment practices, initiatives to address growing environmental pollution, and most importantly, lesser sewage treatment capacities against high generation of waste / effluents (~64% of sewage generated in India goes untreated, as per Frost & Sullivan Industry analysis report) have given rise to business opportunities in this segment. SFC is expected to benefit from this demand-supply disparity in terms of revenue growth in the medium to long term.

- **Strong Market Position:** having provided C-Tech technology to 1000+ STPs with total installed capacity of 11,900 MLD, SFC holds over 80% market share in Sequencing Batch Reactor (SBR) technology, a key wastewater treatment method in India.

- **Healthy Customer Profile and Order Book:** SFC contracts with established and recognised EPC players with good credit profiles viz. Enviro Control Pvt Ltd (CARE A+), GVPR Engineers Ltd (ICRA A+), Vishvaraj Environment Pvt Ltd (CRISIL A), SMC Infrastructures Pvt Ltd (IVR A), Khilari Infrastructure Pvt Ltd (CARE BBB+) etc. to name a few. Top 10 customers contribute ~60-70% of overall revenues. Additionally, 80%+ revenues come from repeat orders. As at September 2024, SFC had an order book of Rs.631 Cr expected to be recognised over the next 12-18 months.

- **Healthy Margins:** SFC has been consistently generating operating margins upwards of 20% over the last 3 fiscals due to lower import purchases along with strong market position in the SBR segment. The company's strategy to lower dependency on imports

has led to setting up of subsidiaries / associate entities which will manufacture key components that find usage in C-Tech for wastewater treatment. This backward integration is expected to benefit SFC's profitability in the long-term.

- **Comfortable Leverage & Strong Liquidity:** As at FY24, SFC's standalone networth stood at Rs.513 Cr (y-o-y accruals strengthening reserves of the company) and standalone EBIDTA Rs.172 Cr. Against this, debt stood at Rs.76 Cr comprising majorly of working capital limits. Debt / Equity and Debt / EBIDTA remains comfortable at less than 0.50x. Additionally, SFC had gross cash accruals and liquid investments (in the form of FDs) of Rs.142 Cr and Rs.165 Cr respectively. These sources are sufficient to service debt obligations over the next 2 fiscals.

2. Key Risk Factors:

- **Elongated Working Capital Cycle:** Standalone working capital days increased from 120 days in FY23 to 168 days in FY24 majorly attributed by deterioration in receivable days from 158 days in FY23 to 200 days in FY24. SFC provides elongated credit period to its customers (avg. in the range of 6-9 months). Stretched receivable days are inherent to the nature of the business but the risk is minimised to some extent as 50% of receivables are backed by LCs.

- **Significant dependence on few customers:** SFC's target customers in WWT are EPC companies ultimately serving municipalities and government agencies. Top 10 customers contributed to 63% of revenues as at Q1 FY25. Contracts with these customers are short-term (12 months), business is usually conducted by way of purchase orders and / or letters of intent. Any failure to retain / negotiate and execute contracts with any of the top 10 customers could adversely affect business & revenues.

- **Transition into Solid Waste Management (ability to manage scale in this segment):** As on date, 85% of consolidated revenues are derived from the Wastewater Treatment segment, 15% from Solid Waste Management. SFC is now looking to increase focus on the Solid Waste Management segment and are L1 bidders for Project in Chandigarh (~750 TPA) that is estimated to cost ~Rs.500 Cr (70% to be funded through debt). Ability to raise funds and manage scalability of larger projects is a key risk considering that SFC may not have the expertise in the SWM segment. The existing North & South Goa SWM Plants are relatively smaller in size (~350 TPA). Further, the SWM segment will require significant amount of capex to be undertaken through a combination of debt and internal accruals. Consequently, large amounts of debt raised can also adversely affect current leverage ratios.

- **Shift to focus on SWM segment will lead to inflation of Balance Sheet –** this segment requires significant capex which is expected to be funded out of debt and internal accruals. Increasing leverage will adversely impact SFC's financial profile & cash flows.

- **Performance Guarantee / Retention Money**

- **Civil Litigation against Austrian Subsidiary, SFC Umwelt Technik GmbH, amounting to Rs.52 Cr –** pertains to a Portuguese project where SFC Umwelt Technik GmbH was a tech partner. As explained to us, there were some faults / errors made by the contractors, but SFC was also wrongly made party to the claim. Company does not see any liability arising from this.

- **Delay in SFC's IPO**: Investment (proposed transaction as tabled Section VI) is proposed to be redeemed through IPO proceeds or refinance in case the IPO doesn't happen during this period. The IPO is envisaged to be completed in the next 10-12 months (i.e. by March 2026). In the event the same does not happen / gets delayed, the following mitigants are in place:
  a. DSRA of 3 months' ensuing Principal + Interest Obligations will be lien marked in favour of Debenture Holders (~Rs.2.5 Cr)
  b. As at March 2026, 25% of the NCDs are expected to be repaid from internal accruals
  c. Transaction is backed by strong security: 1) 1.25x cover on shares held by Issuer (ATPL) in SFC pledged (5.33% stake valued at ~Rs.160 Cr); 2) NDU on Promoter's Liquid Investments ~Rs. 17 Cr; 3) Mortgage on residential bungalow in Mumbai valued at Rs.20 Cr; 4) ISRA Rs.1.25 Cr has been created and lien marked.

VIII. Risks and Mitigants of Proposed Transaction

Sr. N	Risks	Mitigants
1	Exit is dependent on SFC's IPO	SFC's IPO is envisaged to be completed by March 2026. In case of delays, the following mitigants and alternatives are in place: a. Promoter's liquid investments ~Rs.16 Cr can be utilised for part repayment. b. ISRA Rs.1.25 Cr and DSRA ~Rs.2 Cr can be utilised c. Consistent revenue & EBIDTA; low group leverage (Debt / EBIDTA at 0.7x and Net Debt / EBIDTA at -0.3x) and Real Estate assets as collateral makes refinance an attractive alternative exit mechanism. d. By March 2026, ~25% of the proposed investment is expected to be repaid from internal group accruals. e. SFC's internal accruals & cash balances are comfortable to support debt serviceability as long as there is healthy order book and no additional term borrowings.
2	Variation in Current Valuation ~Rs.700 Cr vs estimated IPO Valuation of SFC Environmental Technologies ~Rs.3500 Cr	ATPL's acquisition of 5.33% stake in SFC occurred at an EV of ~Rs.700 Cr in February 2024 (End use of existing Investment). As per Gaurav Jain's (IBBI registered valuer) report dated 5th Sep 2024, SFC's valuation is ~Rs.3600 Cr (based on Comparable Companies' Multiples Method discounted by 40% to consider SFC's smaller scale of business as compared to peers).

		Even if we discount the Multiples by 40%, min. valuation is expected to be ~Rs.3000 Cr giving adequate security cover of 3.55x (value of 5.33% shares pledged against NCD o/s of Rs.45 Cr). Industry Peers PE Multiple is at in 30-35 range. Discounted PE Multiple for SFC (40% discount) is 21 against PAT Rs.144 Cr resulting in Equity Value of Rs.3050 Cr.
3	Security Enforcement Risks	Enforcement of share pledge is the fastest route considering: • Large external investor in the company, should be amenable to buy additional stake. • Given that SFC has already become public and the shares are in Demat form, there are no legal impediments to share pledge enforcement per se. Other security offered viz. enforcement of mortgage and promoter's guarantee will be more time consuming from a legal and judicial point of view.
4	Approvals from existing lenders	SFC's existing lenders' sanctions include templatised / general conditions w.r.t changes in shareholding pattern, management control etc. However, no action has been taken by these lenders for any of the transactions done at Group / Promoter Level previously. Further, the Issuer and Promoters have provided a representation in the Debenture Documents that they have all the necessary approvals in place to do the transaction.
5	Keyman Risk	SFC's day to day business operations are entirely managed and controlled by Mr. Sandeep Asolkar (Promoter, Guarantor). Keyman Risk is mitigated in the following manner: • Mr. Sandeep's daughter, Prachiti Asolkar, is part of the business and is gradually expected to take over key decision-making responsibilities. • Keyman Insurance policy of Mr. Sandeep Asolkar is endorsed in favour of the Debenture Trustee.
6	No covenants in DSA w.r.t Debt Cap at Promoter Level	--
7	No covenants in DSA w.r.t capex restrictions on SFC	SFC's Solid Waste Management business is expected to incur significant capex. Upcoming Chandigarh Project Rs.500 Cr. However, it is pertinent to note the following: 1. Upcoming SWM Projects also have government / municipal body aid in the form of Viability Gap Fundings / Grants. 2. Existing SWM projects are based on Annuity Models where capex amount incurred has been recovered from the government counter party in annual instalments over a period of time, thereby easing financial burden.
8	No specific covenant in the DSA about the OFS portion of IPO	Pledge removal will be subject to details regarding OFS shares at the time of RHP filing.
9	Share pledge will have to be removed before the RHP filing	Will have to build suitable escrow mechanism at that time to ensure that the OFS proceeds are used for our debt servicing
10	All Investment Decisions to be approved by Majority Debenture Holders (holding min.75% of the NCDs)	Will have to develop a working relationship with Oxyzo Financial Services to mitigate this.

IX. Annexures

- Peer Comparison – key financial indicators (for
- Reference Checks
- Brief Note from Promoter Meeting
- Summary of Site Visits