

SFC Environmental Technologies Private Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	36.53 (Enhanced from 24.25)	CARE A; Stable	Revised from CARE A-; Stable
Long-term / Short-term bank facilities	163.77 (Enhanced from 145.52)	CARE A; Stable / CARE A1+	Revised from CARE A-; Stable / CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in the rating assigned to bank facilities of SFC Environmental Technologies Private Limited (SFC) is on account of its consistently improving performance, its healthy order book position providing comfort on the revenue visibility and growing business opportunities in country's wastewater management applications. In addition to this, the company's comfortable leverage position and strong liquidity continues to benefit the rating. However, the rating remains constrained by elongating working capital cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly improving total operating income (TOI) above ₹800.00 crore and sustainability of the same.
- Maintaining the profitability above 22% on sustained basis.

Negative factors

- Deteriorating profit before interest, lease rentals, depreciation and tax (PBILDT) margin below 15% on a sustained basis.
- Adjusted overall gearing above 0.75x on sustained basis.
- Deteriorating liquidity profile of the company.

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 SFC's strong market position, its long track record of operation, positive industry sentiments in waste management practices driven by government initiatives and the company's healthy order book position.

Detailed description of the key rating drivers:

Key strengths

Continuance of growth momentum in near to medium term:

Increasing demand of water in industrial sector, government's focus on wastewater treatment practices, its initiatives in addressing the environment pollution and the overall lower sewage treatment capacities against higher generation of sewage, all these are expected to increase the business opportunities in this market and benefit the company in terms of topline in the medium term to long-term. The company's healthy order book position reflects the increasing thrust by the government on wastewater treatment practices, which is expected to continue driving its topline in FY24 as well. Apart from providing the water technology (C-tech) and associated ancillary services, the company also sells related equipment/parts related to this technology. The

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

company's diversification in terms of treatment of both liquid waste treatment and solid waste treatment through its subsidiaries and associates is expected to benefit the company in terms of scalability in medium to long-term.

The company has achieved total revenue of ₹246.73 crore as on December 31, 2023, on standalone basis. The company books majority of its revenue, i.e. more than 60% of the annual revenue in last two quarters of each financial year. On consolidated level, in FY23, the company grew by 5% with total income from operations at ₹520.80 crore (FY22: ₹498.09 crore). The major revenue contributor continues to be C-tech technology segment followed by equipment sale and solid waste segment.

Continuance of healthy operating margin:

Given the company's strong market position, growing ratio of in-house manufacturing of equipment and the strategy to lower its dependence on overall imports, the company's operating margin is expected to improve in upcoming years. The company's operating margin continues to remain healthy above 22% and the same has also benefitted from the reduction in share of imports in overall procurement to around 40% from 60% of last year. The company is planning to further reduce its import ratio and to achieve this target, the company has recently set up subsidiary and associates, which are into manufacturing of the equipment which find usage in the C-tech technology. The said companies are into nascent stage of operations; however, CARE Ratings believes that this backward integration will benefit the company's profitability in long-term. On consolidated level, the operating margin of the company improved to 24.01% in FY23 (FY22: 22.25%). As per 9MFY24 standalone numbers, the operating margin stood at 23.75%.

Continuance of healthy order book with reputed clientele:

The company has healthy order book of ₹706.10 crore as on March 04, 2024, thus providing revenue visibility for the medium term. The company, which is already into solid waste business, has taken steps to further augment revenues in this segment by bidding for new orders in the solid waste treatment projects. In addition to this, CARE Ratings expects the company's plan to diversify in agro waste to energy business, is going to support its diversification plan. The customer profile of the company continues to include reputed and high credit worthy infrastructure companies.

Comfortable debt structure:

The debt structure is expected to be remain comfortable owing to low leveraged position of the company and y-o-y accruals strengthening the net worth of the company. The debt profile of the company comprises majorly of working capital facility followed by customer advances, term loan, lease liability and loan from directors. As per the management of the company, the capital expenditure (capex) plan, as well as tentative investment in the new projects, will be funded by internal accruals given healthy gross cash accruals generated by the company. The overall gearing of the company stood below unity at 0.28x as on March 31, 2023 (as on March 31, 0.30x). Due to healthy absolute earnings before interest, tax, depreciation and amortisation (EBITDA), the interest coverage continues to remain strong in FY23 at 29.76x (FY22:23.42x). As per 9MFY24 standalone numbers, interest coverage stood at 12.71x.

Key weaknesses

Elongated working capital cycle:

The operations of the company are inherently working capital intensive on account of elongated credit period offered to the customers. The average collection period in FY23 has deteriorated to 111 days (FY22: 76 days). The clients are mainly private sector companies 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 related to such credit period offered is factored in the contract price. Though the collection period is stretched, the credit risk is minimised as most of the debtors are backed by letter of credit. Also, the long credit period is on account of long usance periods given to the customers in letter of credit. As per the debtors ageing schedule, as on December 31, 2023, more than 40% are under receivables for more than six months.

Liquidity: Strong

The liquidity of the company continues to remain strong with gross cash accrual expected to remain healthy in upcoming years above ₹90.00 crore annually given the expected improvement in performance. The gross cash accrual of the company in FY23 stood at ₹99.94 crore (FY22: ₹93.08 crore). In addition to this, the company has free bank balance of ₹164.00 crores as on March 04, 2024, in the form of fixed deposit. The company utilises this to avail overdraft facility in case of any requirement. The cash and bank balance of the company stood at ₹109.97 crore as on March 31, 2023. The average maximum utilisation of fund-based limit remains comfortable at around 12% and non-fund-based limits at around 39% for last 12 months ended January 31, 2024. Against all these sources, the company has total principal debt obligation of only ₹1.43 crore annually in FY25 & FY26.

Applicable criteria

[Consolidation](#)
[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Service Sector Companies](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Utilities	Utilities	Other utilities	Waste management

Based in India, SFC 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 18 years and is mainly promoted by Sandeep S Asolkar. 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. 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 and agriculture, among others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
	Consolidated	Consolidated	Standalone
Total operating income	498.09	520.80	246.73
PBILDT	110.78	126.05	58.61
PAT	85.16	94.81	44.09
Overall gearing (times)	0.30	0.28	NA
Interest coverage (times)	23.42	29.76	12.71

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 last three years: Please refer to 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: Please refer to Annexure-4

Lender details: Please refer to 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		-	-	-	5.00	CARE A; Stable
Fund-based - LT-Term loan / Working Capital Facility		-	-	August 2030	31.53	CARE A; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	163.77	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 2023-2024	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
1	Fund-based - LT-Term loan / Working Capital Facility	LT	31.53	CARE A; Stable	1)CARE A-; Stable (27-Apr-23)	1)CARE A-; Stable (31-Mar-23) 2)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	163.77	CARE A; Stable / CARE A1+	1)CARE A-; Stable / CARE A1 (27-Apr-23)	1)CARE A-; Stable / CARE A1 (31-Mar-23) 2)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	5.00	CARE A; Stable	1)CARE A-; Stable (27-Apr-23)	1)CARE A-; Stable (31-Mar-23) 2)CARE A-; Stable	-	-

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						(06-Apr-22)		

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of 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-Term loan / Working Capital Facility	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 all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Chavare Engineering Private Limited	Full	Similar line of business
2	Navitas Waste Treatment Private Limited		
3	Vasudha Waste Treatment Private Limited		
4	SFC Umwelttechnik GmbH		
5	SFC Ekotechnika S.r.o		
6	Fine Aeration Systems Private Limited		

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.

Contact us

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About us:

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