Spray Engineering Devices Limited

December 31, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Ratings Action
1	Bank Facilities- Long Term	21.00	IVR B+/Stable Outlook (IVR Single B Plus with Stable Outlook)	Assigned
2.	Bank Facilities- Short Term	16.00	IVR A4 (IVR A Four)	Assigned
	Total	**37.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Spray Engineering Devices Limited ("SEDL" or "the Company") derives comfort from its experienced promoters, satisfactory track record of operation of the company and reputed clientele with relatively low counter party payment risks. The ratings also factor in its comfortable capital structure with low near term debt repayment obligation and near to medium term revenue visibility backed by satisfactory order book. The rating strengths are partially offset by history of past delays and restructuring, substantial decline in the operating income with operating loss in FY19, stretched operating cycle and competitive nature of the industry.

Key Rating Sensitivities

Upward Factors: Improvement in profit margins and achieving the projected sales figures without any additional burden on improved operating cycle would call for a positive rating action.

Downward Factors: Maintaining its liquidity position and operating cycle is crucial for the company and any deterioration in liquidity or elongation in operating cycle could put the company in financial stress and call for a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

Experienced promoters

The promoters of the company are having an experience of close to three decades in the industry through their association with SEDL and prior engagements in the sugar industry. Furthermore, SEDL's established track record of operations has enabled the company to establish strong business relationships with its clientele in the market, which has led to repeat orders. Going forwards, SED will get benefit from the promoter's extensive industry experience in the term of acquisition of new clientele or in bulk orders.

Established relationship with its customers and suppliers

Promoters extensive experience in manufacturing of cooling and condensing system, its automation and energy saving equipment's majorly used in the Sugar Industry and also a turnkey supplier for the sugar plants, has led to established healthy relations with its customers and suppliers. Further, the company has a diversified end-user base, consisting of sugar, agro, chemical, refinery and textile sectors etc which provides a cushion against the downturn in any specific sector. Furthermore, SEDL holds a number of intellectual assets both at national and international level which gives the company competitive advantages over its peers in the industry.

Moderate order book position indicating near to medium term revenue visibility

As on November 31, 2019, the company has an order book of ~Rs.61.00 Cr, which includes unexecuted order book of ~Rs.29.5 Cr, providing short term revenue visibility. The unexecuted orders are projected to be executed in upcoming next 3-4 months.

Comfortable capital structure with low near term debt repayment obligation

During FY19, the company has repaid its external term debt liabilities by maturing its Fixed Deposits Receipts. Repayments of term debt obligations strengthen the financial risk profile of the company. The Company had a comfortable capital structure with long-term debt-to-equity ratio of 0.01x, and overall gearing ratio of 0.47x, as on March 31, 2019. Also, Total outside liabilities to Tangible Net worth ratio was moderate at 1.76 times as on March 31, 2019, and is expected remain at 0.9-1.2 times over the next three years. Moreover, repayment obligations of the company remain negligible at Rs.0.19 Crore in FY20 against its vehicle finance. In the absence of any large debt-funded capex, financial risk profile is expected to remain steady.

Key Rating Weaknesses

History of past delays, debt restructuring

Due to continued losses, leading to tight liquidity position, the debt of the company was restructured in March-2013. However, the loans covered under restructuring stand completely repaid as on date. Further, there were instances of delay in the repayment of the term debt obligation by the company, till Jul-2017, owing to cash flow mismatches. However, the company had completely pre-paid the entire term debt outstanding in the last week of July-2017. Further, in last 12 months, the conduct of the accounts has remained satisfactory.

Raw material prices are susceptible to volatility

The major raw materials required for the operations of the company is steel, prices of which are fluctuating in nature and move in tandem with global demand-supply factors. The same can also impact the profitability margins of the company going forward.

Exposure to foreign currency fluctuation risk

The margins of SED are vulnerable to adverse fluctuation in the foreign exchange rates. In FY19, the company received ~20% of its income from exports while the imports amounted to 3% of the total purchases. Though the same provides natural hedge to some extent, the profit margins of the company remain susceptible to any adverse fluctuations in the foreign currency rates.

Substantial decline in the operating income with operating loss in FY19

During FY2018-19, Due to unfavorable business condition with sugar industry, the company has diversified its business towards waste water treatment segment (Mechanical Vapour Recompression evaporator) which led into substantial fall in the operating income from Rs.315.72 Crore in FY2018 to Rs.58.02 Crore in FY2019. With significant deterioration in its total operating income in FY19, the company has reported operating losses of 6.31% and net losses 6.70% respectively, driven by high overhead cost. Operating loss also resulted in a cash loss of Rs.3.57 crore in FY19. Although in H1FY2020, the company has reported total operating income of Rs.29.9 Crore, with an unexecuted order book of ~Rs.30.00 Crore as on November' 19 which provides revenue visibility for this fiscal.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

Cash loss in FY19 resulted in deterioration in the liquidity profile of the company. Further, despite negligible repayment obligations, operations of the company remains working capital intensive operations as reflected by high average working capital limit utilization at ~ above 95% in last 12 months ended October, 2019. Also, the company has elongated cash conversion cycle which stood at above 300 days in FY2019 (PY: 46 days), driven by high receivable and inventory holding period of 215 days and 316 respectively and is expected to remains above 120 days in next three fiscal.

About the Company

The company was formed by merger of two partnership firms, namely Spray Engineering Devices (started in 1992) and C&C Systems in December, 2004. SEDL is promoted by Mr. Vivek Verma and Mr. Prateek Verma, having it's cooperate office located at Mohali, Punjab and three manufacturing units in Baddi, Himachal Pradesh. Till, FY2017-18, The Company was engaged in the manufacturing of cooling and condensing system, its automation and energy saving equipments majorly used in the Sugar Industry) and a turnkey supplier for the sugar plants. Later on in FY2018-19, the company has diversified its business towards the wastewater treatment for revival from the present downturn scenario of sugar industry through its product MVR evaporator.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	315.72	58.02
EBITDA	13.14	(3.66)
PAT	5.53	(5.10)
Total Debt	26.09	21.22
Tangible Net worth	50.57	45.47
EBITDA Margin (%)	4.16	-6.31
PAT Margin (%)	1.74	-6.70
Overall Gearing Ratio (x)	0.52	0.47

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

ICRA Ratings: Issuer not cooperating by ICRA vide press release dated Jan 28, 2019 due to non-availability of information.

CARE's Ratings: Issuer not cooperating by CARE Ratings vide press release dated Dec 17, 2019 due to non-availability of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	21.00	IVR B+/Stable Outlook	-	-	-
2.	Short Term Non-Fund Based Limits – Letter of Credit/Bank Guarantee	Short Term	16.00	IVR A4	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	21.00	IVR B+/Stable
Short Term Bank Facilities – Letter of Credit (I/F)	-	-	-	16.00*	IVR A4

* It includes sub-limit of Bank Guarantee of Rs.1.56 Crore & Rs.0.50 Crore subsequently for different Banks.