



Press Release

Spray Engineering Devices Limited

March 13, 2021

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long term Bank Facilities	20.33 (Reduced from Rs.21.00 Crore)	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Revised from IVR B+/Stable Outlook (IVR Single B Plus)
Short Term Bank Facilities	15.00	IVR A4 (IVR A Four)	Reaffirmed
Long Term Bank Facilities	5.81	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
Total	41.14		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned/reaffirmed/revised 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. Furthermore, the company has substantially improved its revenues as well margins in 9 months ended FY2021. The ratings also factor in its moderate capital structure with minimal 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 FY2019 & thin operating margins in FY2020, 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



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- 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.

Detailed Description of Key Rating Drivers

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 February, the company has an unexecuted order book of ~Rs.65.00 Crs, providing short term revenue visibility. The unexecuted orders are projected to be executed in upcoming next 6 months.

Key Weaknesses

Raw material prices are susceptible to volatility:



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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 FY20, the company received ~16% of its income from exports while the imports amounted to 3-5% of the total purchases. Though the same provides natural hedge to some extent, the profitability margins of the company remain susceptible to any adverse fluctuations in the foreign currency rates.

Thin operating profitability margins and losses at net profitability levels:

During FY2019-20, total operating income of the company has improved to Rs.72.63 Crs as against Rs.58.02 Crs, backed by healthy orderbook of the previous fiscal as well as consistent orders from its recently added waste-water treatment segment (Mechanical Vapour Recompression evaporator). Despite, increase in total operating income, the company has reported marginal operating profit of 0.82% and net losses of 36.25% respectively, driven by high overhead cost and onetime provisioning of Rs.21.18 Crs against book debts mainly related to sales made in FY 2016-17 and 2017-18 to Sugar Industry on the back of adverse industry scenario in Sugar Industry. Operating loss also resulted in a cash loss of Rs.23.69 crore in FY2020 as against cash loss of Rs.2.44 crore in FY2019.

Although in 9MFY2021, the company has reported total operating income of ~Rs.68.44 Crore with operating profit of Rs.6.12 crore (8.94%) and PBT of Rs.0.50 crore (0.71%).

Analytical Approach: Standalone

Applicable Criteria:

Rating methodology for manufacturing companies

Financial ratios and Interpretation (Non-Financial Sector)

Liquidity: Stretched

The liquidity of SEDL remains stretched marked by weak cash accruals as against its debt/interest payment obligations in near to medium term. Furthermore, Operations of the



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company remain working capital-intensive operations as reflected by high average working capital limit utilization at ~ above 97% in last 12 months ended October, 2020. Also, the company has elongated cash conversion cycle and stood at above 185 days in FY2020(PY: 297 days), driven by high receivable and inventory holding period of 174 days and 155 respectively and is expected to remain above 175 days in next three fiscal. Although in FY2019, the company has repaid its external term debt liabilities against the Fixed Deposits Receipts. Term repayment obligations remain negligible at Rs. 0.10 Crores in FY21 against its vehicle finance. SEDL has also opted for moratorium on interest and principal repayment for its banking facilities and has also availed moratorium on interest payment on working capital limits as part of the Covid relief measures announced by the RBI. Moreover, SEDL has availed multiple funding support in the Scheme of Covid 19 of Rs.7.28 crore from its Bank. To conserve its liquidity, SEDL has not planned to undertake any major capex over the next two years. Prudent deployment of short-term funds on a continuous basis would remain a key monitorable going forward.

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 equipment's 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 Basis)

For the year ended / As On	(Rs. crore)	
	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	58.02	72.63
EBITDA	-3.54	0.59
PAT	-5.10	-27.26
Total Debt	21.22	20.52



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Tangible Networth (Book)	44.85	17.89
EBITDA Margin (%)	-6.10	0.82
PAT Margin (%)	-7.88	-36.25
Overall Gearing Ratio (x)	0.47	1.15

Status of non-cooperation with previous CRA:

ICRA Ratings: Issuer not cooperating by ICRA vide press release dated April 20, 2020 due to non-availability of information.

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (December 31, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long term – Fund Based Bank Facilities	Long Term	20.33	IVR BB-/Stable Outlook	IVR B+/Stable Outlook	-	-
2.	Short term-Non-Fund Based Bank Facilities	Short Term	15.00	IVR A4	IVR A4	-	-
3.	Long term – Fund Based Bank Facilities	Long Term	5.81	IVR BB-/Stable Outlook	N.A	-	-

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:



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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 – CC/ODBD	-	-	Revolving	20.33	IVR BB-/Stable Outlook
Short Term - Letter of Credit (I/F)	-	-	-	15.00	IVR A4
Long Term Bank Facilities – WCDL	-	-	-	2.04	IVR BB-/Stable Outlook



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Long Term Bank Facilities – WCTL	-	-	July, 2024	3.77	IVR BB-/Stable Outlook
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