# Press Release

## S.E Power Limited (SEPL)

**October 25, 2022**

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|
| Long Term Bank Facilities | 10.55 (Reduced from 15.17) | IVR BB/Stable (IVR Double B with Stable Outlook) | Revised | Simple |
| Short Term Bank Facilities | 1.24 (Reduced from 1.83) | IVR A4 (IVR A Four) | Reaffirmed | Simple |
| **Total** | **11.79 (Rupees Eleven Crore and Seventy Nine Lac only)** | | | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The revision in the ratings assigned to the bank facilities of S.E. Power Limited (SEPL) factors in continuous improvement in the scalability of the company. The ratings continue to factor in the long track record of promoters in the manufacturing industry and diverse source of revenue. The ratings are, however, constrained by SEPL's exposure to intense competition in industry, susceptibility of SEPL's profitability to volatility in the price of raw material and relatively moderate scale of operations with negative profitability margin.

**Key Rating Sensitivities**

**Upward Factor**

- Sustained & substantial improvement in the Profitability & EBITDA margin.
- Significant improvement in debt protection parameters and liquidity position of the company.

**Downward Factor**

- Any debt funded capex leading to deterioration in the debt protection parameters and/or the liquidity position of the company.
- Any decline in operating income and/or profitability leading to deterioration in overall financial risk profile of the company

**Detailed Description of Key Rating Drivers**

**Key Rating Strengths**

**Extensive experienced board of directors**

SEPL was incorporated in 2010, led by Mr. Arun Gopal Agarwal & Mr. Sachin Agarwal (Managing Director); the promoters have cumulatively more than six decades of experience in the industry. Their extensive experience has enabled the company to establish strong relationships with various counterparties including suppliers and customers and get repeat orders. The promoters are actively involved in the company's operations.

**Diverse sources of revenues**

SEPL has its operations in power generation through windmills and manufacturing of reclaimed rubber; the latter being their primary source of revenue. Within the reclaimed rubber manufacturing unit, they sell rubber and related products. Their revenues from the reclaimed rubber division stood increased from Rs.22.45 crore in FY21 to Rs.46.24 crore in FY22 and revenues from non-conventional energy increased from Rs. 1.21 crore in FY21 to Rs.1.79 crore in FY22.

**Continuous improvement in the scalability of the company; albeit remain moderate**

SEPL's total operating income continue to increase in FY22. SEPL's total operating income increased by 102% in FY22 to Rs.48.68 crore compared to Rs.24.08 crore in FY21. SEPL reported improvement in scalability due to enhanced installed capacity utilization during FY22 in crumb and reclaimed rubber division. Company has reported sales of Rs.27.71 crore for 6MFY22 from rubber division.

**Reversal of Negative EBITDA trends and expected to turn PAT positive in FY23:**
SEPL's EBITDA gradually improved from (Rs.0.12 crore) in FY21 to Rs. 3.70 crore in FY22. In line with EBITDA margin of the company improved from (0.52%) in FY21 to 7.60% in FY22. SEPL's profitability indicators expected to improve in FY23 due to overall improvement in the operational and financial performance of the company. SEPL expected to report positive profit after tax in FY23 onwards.

**Key Rating Weaknesses**

**Susceptibility to volatility in raw material prices**
Profitability of tyre and tube manufacturers remains susceptible to volatility in prices of natural and synthetic scrap rubber, which account for substantial portion of the production cost. The high volatility in natural rubber prices can be attributed to tight domestic demand-supply situation, volatility in natural rubber prices and the price of synthetic rubber, which is a substitute for natural rubber and is a crude oil derivative.

**Exposure to intense competition in industry**
The tyre manufacturing industry in India is dominated by a few large players. This exposes SEPL to intense competition. Being a supplier to some of major players of the industry, SEPL can grow with these players, but bargaining power in terms of pricing will be key monitorable.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Criteria of assigning rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

**Liquidity- Adequate**

The liquidity position of the company is expected to remain adequate in FY23. The average working capital utilisation for 12 months ending July 2022 has been 74.25%. Current ratio and quick ratio were 1.37x and 1.00x respectively as on March 31, 2022. SEPL has cash and cash equivalents of Rs. 0.07 crore as on March 31st 2022.

**About the Company**

SEPL is a public limited company incorporated in the year 2010; they specialise in manufacturing of specialised rubber and power generation through windmills. The company is promoted by Mr. Sachin Agarwal and Mr. Arun Agarwal; they possess a combined 67 years of experience. They have their base of operations in Vadodara (Gujarat). They are also into unconventional energy production through windmills, these windmills are majorly located in the states of Rajasthan and Karnataka

**Financials (Standalone)**

(Rs. crore)

| For the year ended / As On* | 31-03-2021 (Audited) | 31-03-2022 (Audited) |
|---|---|---|
| Total Operating Income | 24.08 | 48.68 |
| EBITDA | (0.12) | 3.70 |
| PAT | (7.33) | (2.95) |
| Total Debt | 75.15 | 83.81 |
| Adjusted Tangible Net Worth | (3.90) | (7.84) |
| **Ratios** | | |
| EBITDA Margin (%) | (0.52) | 7.60 |
| PAT Margin (%) | (30.45) | (6.06) |
| Overall Gearing Ratio (Adjusted) (x) | (19.28) | (10.69) |

**As per Infomerics' standards*

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Nil

**Rating History for last three years:**

| Sl. No. | Name of Instrument/ Facilities | Current Rating (Year 2022-23) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | Type | Amount (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-22 (October 9, 2021) | Date(s) & Rating(s) assigned in 2020-21 (September 25, 2020) | Date(s) & Rating(s) assigned in 2019-20 (September 18, 2019) |
| 1 | Cash Credit | Long Term | 7.50 | IVR BB/ Stable | IVR BB-/ Stable | IVR BB-/ Stable | IVR BB/ Stable |
| 2 | Term Loan | Long Term | 2.23 | IVR BB/ Stable | IVR BB-/ Stable | IVR BB-/ Stable | IVR BB/ Stable |
| 3 | UGCEL | Long Term | 0.82 | IVR BB/ Stable | IVR BB-/ Stable | - | - |
| 4 | Bank Guarantee | Short Term | 1.24 | IVR A4 | IVR A4 | Withdrawn | IVR A4 |

**Name and Contact Details of the Rating Analyst:**

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|---|---|
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**About Infomerics:**

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit [www.infomerics.com](http://www.infomerics.com)

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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 |
|---|---|---|---|---|---|
| Term Loan | - | - | June 2028 | 2.23 | IVR BB/ Stable |
| UGECL | - | - | October 2026 | 0.82 | IVR BB/ Stable |
| Cash Credit | - | - | - | 7.50 | IVR BB/ Stable |
| Bank Guarantee | - | - | - | 1.24 | IVR A4 |

**Annexure 2: List of companies considered for consolidated analysis:** Not Applicable

**Annexure 3: Facility wise lender details**

https://www.infomerics.com/admin/prfiles/Len-SE-Power-oct22.pdf

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

**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.