Press Release

Spray Engineering Devices Limited

December 16, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action
1.	Long Term Bank Facilities	24.22	IVR BB/ Positive outlook (IVR Double B with Positive outlook)	IVR BB-/ Stable (IVR Double B Minus with stable outlook)	Upgrade
2.	Short Term Bank Facilities	15.00	IVR A4+ (IVR A Four Plus)	IVR A4 (IVR A Four)	Upgrade
	Total	**39.22**			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Spray Engineering Devices Limited continue to derives comfort from extensive experience of the promoters, established relationship with its customers and suppliers, healthy order book position indication near to medium term revenue visibility and moderate scale of operations and profitability. However, these factors are offset by moderate networth, moderate leverage position and debt protection metrics. The rating outlook has been revised from stable to positive on account of expected improvement in financial performance of the company considering the H1FY22 financials of the company.

Key Rating Sensitivities:

Upward Factors

- Significant growth in total income with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis.

Downward Factors

- Substantial decline in operating income and cash accrual, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.

- Significant deterioration in debt protection metrics.

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. 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. The company has also diversified its business towards the wastewater treatment for revival from the present downturn scenario of sugar industry through its product MVR and Low Temperature Evaporator and maintaining healthy relationship with their customer and suppliers.

Healthy order book position indicating near to medium term revenue visibility:

The company have a total order book of Rs. 217.41 Cr. (including some carry forward contracted from previous year) out of which the company have received payment amounting to Rs. 84.97 Cr. (including GST) as on 11-Nov-2021 and Rs. 171.35 Cr are yet to be billed. The order book consists of three segments i.e. sugar (28.62%), jaggery (8.28%) and water management (63.10%). Majority of the orders are from water management segment which shows shifting of focus from sugar and jaggery to wastewater management projects. The healthy order book gives near to medium term revenue visibility.

Moderate scale of operations and profitability

The total operating income of the company have shown a growth of ~52% with substantial increase from Rs. 72.63 Cr. in FY20 to Rs. 110.56 Cr. in FY21. Over the years the company has reduced their operations in sugar industry and focusing more on water treatment projects which is evidenced by an increase from 16.75% in FY19 to 62.05% in FY21 which results in increase in revenue for the company. The profitability margins have also improved in FY21 with an EBITDA margin of 11.13% and PAT margin of 4.19%.

The 6MFY22 financials (unaudited) have also shown significant improvement. The TOI has shown a growth of ~160% with an increase from Rs. 41.11 Cr in 6MFY21 to Rs. 106.52 Cr. in 6MFY22. The profitability margins have also improved in 6MFY22 over the same period last year and stood comfortable with EBITDA margin of 9.83% and PAT margin of 6.44%.

Key Rating Weaknesses

Moderate networth

The networth of the company stood moderate as evidenced by TNW of Rs. 23.49 Cr. in FY21 as against Rs. 18.21 Cr. in FY20. The TNW has improved on account of ploughing back of profits amounting to Rs. 4.66 Cr and increase in share capital and securities premium of the company on account of issuing ESOPs under the Share Distribution Scheme 2017 (FY2017-18).

Moderate leverage position and debt protection metrics

The leverage ratios stood moderate with long term debt to equity ratio of 0.36x and overall gearing of 1.10x in FY21. The total indebtedness of the company has improved marginally as indicated by TOL/TNW of 4.29x in FY21 (PY: 4.89x) on account of increase in TNW. However, it remained high due to increase in long term debt in the form of covid loans. Debt protection metrics have improved with Interest coverage ratio of 2.08x, Total debt / GCA of 3.62 years, Long term debt/EBIDTA of 0.69x and DSCR of 3.12x in FY21.

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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The company earned a gross cash accrual of Rs. 7.14 Cr as against a repayment obligation of Rs. 2.54 Cr. in FY21. Further, the liquidity position of the company is expected to remain adequate as the company is expected to generate gross cash accrual in the range of Rs.29.00-30.00 crore during the projected period, which is adequate to serve its debt repayment obligations during the same period in the range of Rs. 2.00- Cr. 3.00 Cr. Its capex requirements are moderate and expected to be funded through a mix of long-term debt and internal accruals for which it has sufficient headroom. The current ratio is below average at 1.00x in FY21 mainly due to high value of advances received from the customers. The bank limits are utilized to the extent of ~88% during the past 12 months ended Sept 2021.

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 corporate 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, during 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 and Low Temperature Evaporator.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	72.63	110.56
EBITDA	-20.59	12.30
PAT	-27.26	4.66
Total Debt	23.08	25.86
Tangible Net worth	18.21	23.49
EBITDA Margin (%)	-28.35	11.13
PAT Margin (%)	-36.25	4.19
Overall Gearing Ratio (x)	1.27	1.10

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: ICRA has placed the rating under ICRA D category in July, 2017 from BB-/Stable upgraded in June, 2016. Simultaneously, ICRA has migrated & reaffirmed the rating of the company to [ICRA] D ISSUER NOT COOPERATING in Jan, 2019, April, 2020 and Jul, 2021, in the absence of adequate information to review the Rating.

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-2022)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating (December, 2021)	Date(s) & Rating(s) assigned in 2020-21 (March 12, 2021)	Date(s) & Rating(s) assigned in 2019-20 (December 31, 2019)	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Bank Facilities- WCTL	Long Term	3.26	IVR BB/Positive	IVR BB-/Stable	IVR B+/Stable	-
2.	Fund Based Bank Facilities-	Long Term	20.33	IVR BB/Positive	IVR BB-/Stable	IVR B+/Stable	

	Cash Credit/ODBD						
3.	Fund Based Bank Facilities-WCDL	Long Term	0.63	IVR BB/Positive	IVR BB-/Stable	IVR B+/Stable	-
4.	Non-Fund Based Bank Facilities-LC/BG	Long/Short Term	15.00	IVR A4+	IVR A4	IVR A4	-

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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.

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- WCTL	-	-	-	3.26	IVR BB/Positive
Long Term Bank Facilities- Cash Credit/ODBD	-	-	-	20.33	IVR BB/Positive
Long Term Bank facilities- WCDL	-	-	-	0.63	IVR BB/Positive
Short term Bank Facilities- LC/BG	-	-	-	15.00	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/Spray-engineering-lenders-dec21.pdf

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	WCTL	Simple
2.	Cash Credit/ODBD	Simple
3.	WCTL	Simple
4.	LC/BG	Simple

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.