



Press Release

Spray Engineering Devices Limited

September 27, 2023

Ratings

Instrument/Facility	Amount (Rs. Crore)	Current Rating	Previous Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	72.53	IVR BBB/Stable (IVR Triple B with Stable Outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Upgraded	Simple
Short Term Bank Facilities	45.00	IVR A3+ (IVR A Three Plus)	IVR A3 (IVR A Three)	Upgraded	Simple
Total	117.53	Rupees One Hundred Seventeen Crores and Fifty Three Lakhs Only			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has upgraded long term rating of IVR BBB and short-term rating of IVR A3+ for the bank loan facilities of Spray Engineering Devices Limited (SEDL).

The rating draws comfort from the extensive experience of the promoters in the industry, established relationship with its customers and suppliers, moderate order book position indicating near to medium term revenue visibility, increase in scale of operations and profitability. However, these strengths are partially offset by moderate net worth and raw material prices are susceptible to volatility.

IVR has principally relied on the standalone audited financial results of Spray Engineering Devices Limited upto 31 March 2023, Provisional figures Q1FY24, projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the company's management.



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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, SEDL 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



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MVR and Low Temperature Evaporator and maintaining healthy relationship with their customer and suppliers.

Revenue visibility backed by strong order book position:

The company set up in the year 2004, Since then, the company has received contracts from various parties across the country. The total operating income (TOI) has grown at a compounded annual growth rate (CAGR) of more than 88.28% from Rs. 110.56 crore in FY21 to Rs. 391.94 crore in FY23. The company witnessed delays in execution during the period of COVID-19, however, has paced up its execution post that. During 3MFY24, the company has recorded a revenue of Rs. 118.40 crore. As on Aug 31, 2023, the company had a confirmed order book of Rs. 344.75 crore and sizeable orders in the pipeline, which provides fair amount of revenue visibility for the next three years.

Healthy Financials Risk Profile:

The financial risk profile of the company is healthy marked by adequate net worth, and debt coverage indicators. The tangible net worth of SEDL stood at Rs. 71.00 Cr. as on March 31, 2023 as against Rs. 38.08 Cr. as on March 31, 2022. The company follows a conservative leverage policy as reflected in its healthy gearing (debt-equity) of 0.83 times as on March 31, 2023 against 0.48 times as on March 31, 2022. The coverage indicators stood comfortable with Interest Coverage Ratio (ICR) and DSCR at 6.81 times and 4.90 times as against 9.08 times and 4.12 times in FY2022. Debt to EBITDA stood at 1.07 times in FY2023 as against 0.85 times in FY2022. IVR believes that the financial risk profile of the company is expected to remain stable in absence of any major debt funded capex in near to medium term.

Key Rating Weaknesses

Stretched Debtor Ageing:

The company is engaged in the business of manufacturing of plant & machinery for sugar mills and waste water treatment plants, the company has given PBG to the customers for the period ranging from 1 to 2 years or there is a cash retentions by the customers. Such amounts



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will be released by the customers on the expiry of the performance period. Since it is a normal practice in the industry to withheld retention money due to which certain debtors remain outstanding for more than 180 days and ultimately, they are realized at the end of the agreed period.

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: For arriving at the ratings, IVR has analyzed SEDL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-financial Sector\)](#)

[Criteria for assigning rating outlook](#)

Liquidity: Adequate

The company earned a gross cash accrual of Rs. 38.10 crore as against a repayment obligation of Rs. 3.92 crore in FY23. 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.62.67-70.68 crore during the projected period, which is adequate to serve its debt repayment obligations during the same period in the range of Rs. 4.89- crore 4.13 crore. The current ratio is stood at 1.19x in FY23 mainly due to high value of advances received from the customers. The bank limits are utilized to the extent of ~75.53% during the past 12 months ended July 2023.

About the Company



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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 its 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):

For the year ended* As on	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	214.45	391.94
EBITDA	21.45	54.86
PAT	15.06	33.06
Total Debt	18.13	58.65
Tangible Net worth	38.08	71.00
EBITDA Margin (%)	10.00	14.00
PAT Margin (%)	6.98	8.40
Overall Gearing Ratio (x)	0.48x	0.83x

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Type	Current Ratings (Year 2023-24)		Rating History for the past 3 years			
			Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 Date: Jan	Date(s) & Rating(s) assigned in 2022-23 Date :	Date(s) & Rating(s) assigned in 2021-22 (Dec 16,	Date(s) & Rating(s) assigned in 2020-21 (Mar 12, 2021)



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					10, 2023	July 12, 2022	2021)	
1.	Fund Based	Long Term	72.53	IVR BBB/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB/ Positive	IVR BB-/ Stable
2.	Non-Fund Based	Short Term	45.00	IVR A3+	IVR A3	IVR A3	IVR A4+	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 Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit 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
Long Term Fund Based Facilities – Term Loan	-	-	-	27.20	IVR BBB/ Stable
Long Term Bank Facilities- CC/ODBD	-	-	-	45.33	IVR BBB/ Stable
Short Term Bank Facilities- LC	-	-	-	45.00	IVR A3+

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-spray-sep23.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 [Complexity Level of Rated Instruments/Facilities](#).