Press Release

S. E. Power Limited

September 18, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Fund Based – Term Loan	12.09	IVR BB / Stable Outlook (IVR Double B with Stable Outlook)
2.	Long Term Facility – Fund Based - Cash Credit	4.00	IVR BB / Stable Outlook (IVR Double B with Stable Outlook)
3.	Short Term Facility – Non Fund Based – Bank Guarantee	0.41	IVR A4 (IVR A Four)
4.	(Proposed) Short Term Facility – Non Fund Based - Bank Guarantee	0.50	IVR A4 (IVR A Four)
	Total	**17.00**	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating derives comfort from experienced board of directors, diverse sources of revenue and advantages of using reclaimed rubber. However, the rating is constrained by current losses and declining debt protection metrics, high cost of inputs and over reliance on other sources of funding. Growth in scale of operations, significant rise in profitability and sharp changes in leverage are the key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced Board of Directors

SEPL was incorporated in 2010, led by Mr. Arun Gopal Agarwal (Chairman) & Mr. Sachin Agarwal (Managing Director); both of whom have a combined experience of over 60 years and bring a wealth of experience in the field of budgetary controls, cost accounting, operations, quality control, management and marketing and internal audit. Mr. Arun Agarwal is a member of Management Association and Arbitration Council of India and Mr. Sachin Agarwal has a degree in commerce with an MBA. Since its inception, they have been instrumental in guiding the company and managing its day-to-day affairs. As on March 31, 2019, the promoters have infused Rs. 42.73 Cr. loans from related parties & others into the business.

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 as well as steel wires which have a variety of uses. The reclaimed rubber offered by SEPL is of 80 to 120 kg/sqcm in tensile strength whereas the strength of reclaimed rubber being sold in the current market is 60 kg/sqcm, thus helping the company in differentiating their product offering. Their revenues from the reclaimed rubber division stood at Rs. 16.68 Cr and revenues from non-conventional energy generation stood at Rs. 1.60 Cr in FY19.

Advantages from using Reclaimed Rubber

It is relatively cheaper and is a more cost effective alternative than natural and synthetic rubbers. It helps to reduce the price of products that use rubber like wire insulations, hoses, mulches, flooring, hard tires, drainage systems etc. Less energy is used during the process of recycling as compared to the manufacturing of natural rubber. Unlike synthetic rubber that needs to be burnt in an open area, whilst it releases toxic gases, recycled rubber does not have to be burnt. Reclaimed rubber has noise-absorbing and sound-insulating properties, it is energy efficient while producing, it has strength and durability. The reclaimed rubber can again be recycled into maintenance free timber pieces that can be used in landscaping.

Key Rating Weaknesses

Current Losses and declining debt protection metrics

SEPL has been experiencing a decline in profits since FY18 when they incurred losses of Rs. 5.14 Cr.; currently their PAT stands at Rs. -6.81 Cr; majorly due to below-par demand for reclaimed rubber following the general slowdown in the economy and especially the auto industry, rising raw material prices and increased debt funded capacity expansion. Their GCA further declined by 60% to Rs. -4.31 Cr. in FY18 from Rs. -2.69 Cr. in FY19. The interest coverage ratio stood at -0.72 times, and their debt service coverage ratio was impacted due to the mounting loans and interest payments further affected by decline in sales revenue.

High cost of inputs

Rubber being a long gestation crop, it requires huge investments by the grower for seven years before it starts yielding. To sustain the livelihood of growers for a further yielding period of 20-plus years, a fair price and a buyback scheme should be made available along with replanting subsidies provided by the Rubber Board. Moreover, the raw material costs form a major portion of the average selling price and the contribution levels remain reactive to changes in prices. The raw material prices have increased by 10% in the first quarter of FY20 mainly due to 13% spike in natural rubber prices during this period; one of the main reasons behind low accruals.

Over-reliance on other sources for funding

SEPL has had a history of relying on funds from external sources other than banks. In FY18 their unsecured loans stood at Rs. 40.61 Cr. which rose to Rs. 50.23 Cr. in FY19 – which is further projected to increase to Rs. 55 Cr. in FY20. As on March 31, 2019, their unsecured borrowings constituted Rs. 1.15 Cr. from related parties and Rs. 39.08 Cr. from Others (the unsecured loans are subordinated to bank facilities); also they have sourced loan of Rs. 10 Cr. from an NBFC. This is putting major pressure on their debt service coverage parameters as the company is being forced to refinance their existing debt as they are currently incurring losses.

Analytical Approach & Applicable Criteria

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

Stretched - Liquidity is marked by tightly matched accruals to repayment obligations, highly utilized bank limits and modest cash balance.

About the Company

S E Power Ltd (SEPL), erstwhile S. E. Investments Ltd which split into two separate entities – S.E. Power Ltd (rubber manufacturing and power producing) and Paisalo Digital Ltd (a non-deposit taking NBFC (rated IVR A/Positive Outlook). 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 **(Rs. crore)**

For the year ended/ As On	**31-03-2018**	**31-03-2019**
	(Audited)	**(Audited)**
Total Operating Income	15.87	18.76
EBITDA	-0.23	-1.81
PAT	-5.14	-6.81
Total Debt	16.46	13.10
Tangible Networth	68.89	69.75
Ratios		
EBITDA Margin (%)	-1.46	-9.63
PAT Margin (%)	-32.42	-36.32
Overall Gearing Ratio (x)	0.24	0.19

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: N.A

Any other information: N.A

Rating History for last three years:

Sl. 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.	Fund Based Limits – CC	Long Term	4.00	IVR BB/ Stable Outlook	--	--	--
2.	Fund Based – Long term debt – Term Loan	Long Term	12.09	IVR BB/ Stable Outlook			
3.	Non Fund Based – Bank Guarantee	Short Term	0.41	IVR A4	--	--	--
4.	(Proposed) Non Fund Based Limits – Bank Guarantee	Short Term	0.50	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. 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 Fund Based Limits – Cash Credit	--	--	--	4.00	IVR BB/Stable Outlook
Long Term Debt – Term Loan	--	--	2021	12.09	IVR BB/Stable Outlook
Short Term Non Fund Based – Bank Guarantee	--	--	--	0.41	IVR A4
(Proposed) Short Term Facility – Non Fund Based – Bank Guarantee	--	--	--	0.50	IVR A4