Press Release

Spray Engineering Devices Limited

December 09, 2024

Ratings

Instrument Facility	Amount (Rs. Crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long term Bank Facilities	88.14	IVR BBB+/ Positive (IVR Triple B Plus with Positive outlook)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Upgraded with change in outlook	Simple
Short Term bank Facilities	57.53	IVR A2 (IVR A Two)	IVR A3+ (IVR A Three)	Upgraded	Simple
Total	**145.67**	**(Rupees One hundred forty-Five crores and sixty-seven lakhs only)**			

Details of Facilities/Instrument are in Annexure 1

Facility wise lender details are at Annexure 2

Detailed explanation of covenants is at Annexure 3

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has upgraded the long-term rating along with change in outlook to IVR BBB+ with a Positive outlook and upgraded the Short Term rating to IVR A2 for the bank loan facilities of Spray Engineering Devices Limited (SEDL).

The rating continues to draw comfort from its experienced promoters and long track record of operations, improvement in scale of operations, healthy order book, satisfactory capital structure and debt protection metrics. However, these strengths are partially offset by susceptibility of operating margin to volatile input prices & high average collection period and long outstanding debtors.

The Positive outlook is on account of growing scale of operations and healthy financial risk profile of the company. IVR believes that the SEDL business & financials risk profile will be improved over the medium term on the back of SEDL established long track record of operations and improved scale of operations over the years.

IVR has principally relied on the standalone financial results of SEDL up to March 31, 2024 (Audited) (Review period April 01, 2023 to March 31, 2024) and three years projected financials till FY27, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in operating income above 800.00 Crore with improvement in gross cash accruals
- Sustenance of the capital structure with improvement in TOL/TNW to below 1.00x and/or improvement in debt protection metrics.
- Improvement in liquidity marked by improvement in operating cycle

Downward Factors

- Moderation in operating income and/or profitability and cash accruals impacting the debt protection metrics.
- Any debt funded unplanned capex or availment of any fresh loan leading to deterioration in overall gearing to over 1.50x
- Stretch in the working capital cycle driven by stretch in receivables impacting the liquidity.

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.

Steady improvement in scale of operations

The operating income of the company (Standalone) registered a CAGR of ~59.68% i.e., from Rs.214.45 crore in FY22 [FY refers to the period from April 1 to March 31] to Rs.546.84 crore in FY24 (Aud.) which is mainly driven by timely execution of work contract orders and equipment orders. The operating margin of the company remained healthy and witnessed improvement from 14.37% in FY23 to 16.10% in FY24 (Aud.) driven by higher absorption of fixed overheads underpinned by increase in scale of operations and rise in average sales realisation attributable to rising demand of wastewater management. Further, with improvement in absolute EBITDA, the PAT margin also improved from 8.72% in FY23 to 9.68% in FY24 (Aud.). In H1FY25, the company has achieved a revenue of ~Rs.301.65 crore

Satisfactory capital structure with adequate debt protection metrics

The capital structure of the company remained satisfactory over the past fiscals marked by its satisfactory leverage ratios underpinned by low reliance on long term debts. The overall gearing ratio remained comfortable and improved as on March 31, 2024, to 0.63x from 0.88x as on March 31, 2023 on the back of improvement in net worth of the company. accordingly, the long-term debt equity ratio has improved from 0.41x as on March 31, 2023, to 0.23x as on March 31, 2024 due to regular repayment of term loans and consistent accretion of profits to net worth. Despite increase in finance cost, debt protection metrics as indicated by interest coverage ratio improved to 8.90x in FY24 (Aud.) as compared to 6.98x in FY23 due to increase in absolute EBITDA. In line, the Total debt to EBITDA and Total debt to NCA has also improved to 0.88x & 1.21x respectively as on March 31,2024 (Aud.) from 1.06x & 1.33x respectively as on March 31,2023.

Satisfactory orderbook indicating healthy revenue visibility

The pending order book of SEDL is Rs.581.95 crore as on August 2024 which is 1.06 times of its FY24(Aud.) revenue. The orders are expected to be executed in coming 12-15 months provides a strong near to medium term revenue visibility for the company. Moreover, SEDL has a strong and growing customer base among domestic players.

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.

Key Rating Weaknesses

Stretched Debtor Ageing:

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

Applicable Criteria :

Rating Methodology for Manufacturing Sector entities
Financial Ratios & Interpretation Non- Financial Sector
Criteria for assigning rating outlook
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The company earned a gross cash accrual of Rs. 64.00 crore as against a repayment obligation of Rs. 5.12 crore in FY24. 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.101.09-151.41 crore during the projected period, which is adequate to serve its debt repayment obligations during the same period in the range of Rs. 4.52- crore 3.60 crore. The current ratio is stood at 1.40x in FY24 mainly due to high value of advances received from the customers. The bank limits are utilized to the extent of ~77.00% during the past 12 months ended July 2024.

About the Company

Spray Engineering Devices Limited (SED) is a public limited company jointly promoted by the Mr. Vivek Verma and Mr. Prateek Verma in the year 2004. Spray Engineering Devices Limited (SED) is the flagship company of SED Group, headquartered at Mohali, Punjab, India. SED has emerged as the technology driven company, striving to provide integrated energy saving equipment and solutions for water, biofuel, jaggery and sugar industries across the globe.

From a modest start of manufacturing of spray nozzles, SED today has established its existence in more than 40 countries, providing Innovative Technological Solutions to Sugar & Allied Industries. SED offers integrated energy efficient, cost-effective turnkey solution for Sugar Sector having specialization in Evaporation, Crystallization, Refining and Cooling & Condensing System.

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	391.95	546.84
EBITDA	56.31	88.05
PAT	34.35	53.01
Total Debt	59.90	77.46
Tangible Net worth*	68.38	122.97
EBITDA Margin (%)	14.37	16.10
PAT Margin (%)	8.72	9.68
Overall Gearing Ratio (x)	0.88	0.63
ISCR (x)	6.98	8.90

**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 2024-25)			Rating History for the past 3 years			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 Dated : Sep 27, 2023	Date(s) & Rating(s) assigned in 2022-23 Dated : Jan 10, 2023	Date(s) & Rating(s) assigned in 2022-23 Dated : July 12, 2022	Date(s) & Rating(s) assigned in 2021-22 Dated : Dec 16, 2021
1	Fund Based-Term Loan	Long Term	21.41	IVR BBB+/ Positive (IVR Triple B Plus with Positive outlook)	IVR BBB/Stable (IVR Triple B with Stable outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable outlook)	IVR BB/Positive (IVR Double B with Positive outlook)
2	Fund Based – Cash Credit	Long Term	66.73	IVR BBB+/ Positive (IVR Triple B Plus with Positive outlook)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable outlook)	IVR BB/Positive (IVR Double B with

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								Positive outlook)
3.	Non - Fund Based – Bank Guarantee	Short Term	57.53	IVR A2 (IVR A Two)	IVR A3+ (IVR A Three Plus)	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	IVR A4+ (IVR A Four Plus)

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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

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 – Term Loan			Nov 2032	21.41	IVR BBB+/ Positive (IVR Triple B Plus with Positive outlook)
Long Term Bank Facilities – Cash Credit			Revolving in Nature	66.73	IVR BBB+/ Positive (IVR Triple B Plus with Positive outlook)
Short Term Bank Facilities – Bank Guarantee			-	57.53	IVR A2 (IVR A Two)

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-Spray-Engineering-9dec24.pdf

Annexure 3: Detailed explanation of covenants of the rated securities/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated analysis : Nil

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