



## Press Release

### S. E. Power Ltd

September 25, 2020

#### Ratings

Sl. No.	Instrument/Facility	Amount (INR Crores)	Rating Assigned	Rating Action
1.	Long Term Bank Facility – Fund Based – Cash Credit	4.00	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Revised
2.	Long Term Bank Facility – Fund Based – Term Loan	7.66 (Reduced from INR 12.09 crore)	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Revised
3.	Long Term Bank Facility – Non Fund Based – Bank Guarantee	0.41	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Revised
4.	(Proposed) Non Fund Based – Bank Guarantee	0.50	-	Withdrawn

#### **Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The rating revision takes into account the continuing deterioration in profitability leading to tightening of liquidity and high cost of inputs. However, this is mitigated by taking into account the comfort from the experienced board of directors, diverse sources of revenues and advantages of using reclaimed rubber.

#### **Key Rating Sensitivities**

##### **Upward factors:**

- Sustained improvement in profitability and financial risk profile with EBITDA margins of more than 5%.

##### **Downward factors:**

- Further decline in liquidity profile leading to deterioration in debt servicing indicators



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### ***Key Rating Drivers with detailed description***

#### ***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.

##### **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 increased from INR16.69 crore in FY19 to INR18.90 crore in FY20 and although the revenues from non-conventional energy declined marginally from INR1.60 crore in FY19 to INR1.43 crore in FY20.

##### **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.



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### **Key Rating Weaknesses**

#### **Continuing deterioration in profitability leading to tightening of liquidity**

SEPL has been experiencing a decline in profits since FY17; currently their PAT has further declined from INR-6.81 crore achieved in FY19 to INR-8.52 crore in FY20; majorly due to below-par demand for reclaimed rubber following the general slowdown in the economy and especially the auto industry and rising raw material prices. The GCA has also declined from INR-4.31 crore in FY19 to INR-6.27 crore in FY20. The interest coverage ratio also deteriorated from -0.72x in FY19 to -0.83x in FY20, and their debt service coverage ratio was impacted due to the mounting loans and interest payments affected by decline in sales revenue. The liquidity position of the entity has weakened significantly over the years due to the cash losses incurred since FY17. Due to stressed liquidity, the company has taken unsecured loans to service their debt obligations, increasing from INR50.23 crore in FY19 to INR57.76 crore in FY20.

#### **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 27.19% in FY20 mainly due to a spike in natural rubber prices during this period; one of the main reasons behind low accruals.

#### **Analytical Approach & Applicable Criteria**

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

#### **Liquidity – Stretched**

Liquidity is stretched, marked by tightly matched accruals to repayment obligations, highly utilized bank limits and modest cash balance. The company has a very low cash balance of



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INR0.13 crore in FY20 with a negative GCA of INR6.27 as the company has been saddled by continued losses incurred since the last three fiscals. The current ratio is just above unity at 1.01x on FY20.

### 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 (Standalone)\*:

For the year ended/ As On	31-03-2018 (Audited)	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	15.87	18.76	20.33
EBITDA	-0.23	-1.81	-2.92
PAT	-5.14	-6.81	-8.52
Total Debt	57.07	63.33	68.49
Tangible Net-worth	28.17	19.41	6.65
<b>Ratios</b>			
EBITDA Margin (%)	-1.46	-9.63	-14.38
PAT Margin (%)	-32.42	-36.32	-41.00
Overall Gearing Ratio (x)	2.03	3.26	10.30

\* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: N.A.



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### Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (September 18, 2019)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Facility – Fund Based - Cash Credit	Long Term	4.00	IVR BB-/ Stable Outlook	IVR BB/ Stable Outlook	--	--
2.	Long Term Bank Facility – Fund Based – Term Loan	Long Term	7.66 (reduced from INR12.09 crore)	IVR BB-/ Stable Outlook	IVR BB/ Stable Outlook	--	--
3.	Long Term Bank Facility – Non Fund Based – Bank Guarantee	Long Term	0.41	IVR BB-/ Stable Outlook	IVR BB/ Stable Outlook	--	--
4.	(Proposed) Non Fund Based – Bank Guarantee	Short Term	0.50	Withdrawn	IVR BB/Stable Outlook		

**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](http://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.



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### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Facility –Fund Based - Cash Credit	NA	NA	Revolving	4.00	IVR BB-/ Stable Outlook
Long Term Bank Facility – Fund Based – Term Loan	NA	NA	Up to 2021	7.66	IVR BB-/ Stable Outlook
Long Term Bank Facility – Non Fund Based – Bank Guarantee	NA	NA	Upto 8 years	0.41	IVR BB-/ Stable Outlook
(Proposed) Non Fund Based – Bank Guarantee	NA	NA	NA	0.50	Withdrawn