

March 26, 2025

Spray Engineering Devices Limited: [ICRA]BBB+ (Stable)/[ICRA]A2 assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long term – Fund based – Term loan	20.74	[ICRA]BBB+ (Stable); assigned
Long term – Fund based – Cash credit	66.73	[ICRA]BBB+ (Stable); assigned
Short term – Non-fund based – BG/LC	57.53	[ICRA]A2; assigned
Total	145.00	

*Instrument details are provided in Annexure I

Rationale

The assigned rating to Spray Engineering Devices Limited (SEDL) factors in the established track record of its operations in manufacturing energy-efficient products & solutions for the sugar, jaggery and allied sectors along with the biofuel (ethanol) and water recycling segments. The ratings also factor in a healthy financial risk profile with a significant improvement in the scale of operations to Rs. 547 crore in FY2024 at a CAGR of ~75% in the last four years. Further, the capital structure of the company has remained healthy over the past fiscals, marked by low reliance on long-term debt. The debt protection metrics, indicated by the interest coverage ratio, improved in FY2024 and YTFY2025 due to better absolute OPBITDA and reduced debt levels. There was an equity infusion of Rs. 72 crore in H1 FY2025, which further strengthened SEDL's capital structure and coverage metrics. The ratings also factor in the strong orderbook position of Rs. 840 crore as on January 31, 2025, indicating healthy revenue visibility in the near to medium term.

The ratings, however, are constrained by the susceptibility of the operating margins to volatile input prices, the high average collection period and the long outstanding debtors. The major raw material used is steel, prices of which are fluctuating and can impact the company's profitability margins, going forward. Further, the company either gives performance bank guarantee (PBG) to the customers for a 1-2 year period, or the customers opt for cash retention. The retention money is released by the customers on the expiry of the performance period (defect liability period).

The Stable outlook on the rating reflects ICRA's expectation that SEDL is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established track record of operations with strong R&D capabilities – The promoters, Mr. Vivek Verma and Mr. Prateek Verma, have around 33 years of experience in the core engineering and sugar industry. Both are from an engineering background and have been engaged in the core engineering and sugar business since 1992. In 2004, they started SEDL with the manufacturing and sale of spray nozzles used in sugar mills. At present, the company supplies energy-efficient equipment for the sugar, jaggery, water recycling and biofuel (ethanol) segments in India and abroad.

SEDL has comprehensive in-house R&D capabilities with more than 100 patents in the sugar and allied sectors focussing on higher energy efficiency through reduced steam requirement. It has a team of around 60 research and design engineers in the

R&D department and has been engaged in continuous R&D over the last 20-25 years. Recently, SEDL has also tied up with a US-based microbiology company, named LanzaTech, for R&D purposes.

Healthy financial risk profile - The company has witnessed healthy growth over the last 4-5 years on the back of an upswing in the sugar industry and greater revenue from diversified product segments, especially water treatment, ethanol and biofuels. SEDL has a large number of patents in the market with superior steam efficiency. This helps it in getting repeat orders from the sugar, jaggery and water treatment segments, which has supported the revenue growth in the last 4-5 years. The FY2024 revenue for SEDL was at around ~Rs. 547 crore, up from Rs. 392.6 crore in FY2023, on the back of healthy earnings from all the key product segments, especially biofuel (ethanol). The revenue in 9M FY2025 was around Rs. 380 crore.

The company's capital structure has remained healthy over the past fiscals, marked by low reliance on long-term debt. The overall gearing remained comfortable and improved as on March 31, 2024, to 0.6x from 0.8x as on March 31, 2023 on the back of an improvement in the company's net worth. The debt protection metrics, indicated by the interest coverage ratio, improved to 8.9x in FY2024 from 7.2x in FY2023 due to increase in the absolute OPBITDA. In line, the total debt to OPBITDA also improved to 0.9x as on March 31, 2024 from 1.0x as on March 31, 2023. There was an equity infusion of Rs. 72 crore in H1 FY2025, further strengthening the capital structure and coverage metrics.

Strong orderbook indicating healthy revenue visibility - The current orderbook stands at around Rs. 840 crore with nearly 75% of the orders from the sugar, jaggery and biofuel segments and the remaining 25% from water treatment. The size of the orders from the sugar, jaggery and biofuels segments is larger (in the range of Rs. 35-40 crore) vis-à-vis the water treatment orders (usually around ~Rs. 5-6 crore). However, the number of orders are higher in water treatment vis-à-vis the other segments. The average execution time for a water treatment order is around 60 days, while the orders for the sugar, jaggery and biofuel segments take 5-6 months.

Credit challenges

Profitability remains exposed to volatility in raw material price fluctuations - The key raw material for SEDL is steel (including carbon steel) which accounts for 70-75% of the total raw material procured. All the orders are fixed price in nature with no price variation/escalation clauses, which makes the operating margins susceptible to volatile input prices. The prices of steel are fluctuating and vary with the global demand-supply scenario. This can impact the company's profitability margins, going forward.

Working capital-intensive nature of business with stretched receivables - The business is working capital-intensive with stretched receivables. Almost 45% of its overall debtors are more than 6 months. Debtors greater than 6 months mainly comprise retention money. The company either gives PBG to the customers for a 1-2 year period, or the customers opt for cash retention. The retention money is released by the customers on the expiry of the performance period.

Liquidity position: Adequate

SEDL's liquidity is adequate on the back of expected healthy cash flow from operations in FY2025, cash balances/liquid investments of ~Rs. 3.66 crore and undrawn fund-based limits of ~Rs. 26.77 crore as on September 30, 2024. In relation to these sources of cash, SEDL has debt repayment obligations of ~Rs. 4.71 crore in FY2025 and Rs. 4.52 crore in FY2026. The average limit utilisation was 56% in the last 12 months ended December 2024. Further, SEDL has moderate capex plans over the next three years, which would be funded from internal accruals.

Rating sensitivities

Positive factors - The ratings can be upgraded if SEDL exhibits a sustained improvement in its scale of operations while maintaining healthy profitability and improved working capital cycle and liquidity position.

Negative factors – The ratings can be downgraded if there is a sustained moderation in revenue and/or profitability along with an elongation in the working capital cycle due to a stretch in the receivables, thereby adversely impacting the liquidity. A specific credit metric for downgrade includes a total debt/OPBDITA of more than 2.5 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financials of the company.

About the company

Spray Engineering Devices Limited (SEDL) was established in 2004 by Mr. Vivek Verma and Mr. Prateek Verma and specialises in manufacturing and delivering energy-efficient products & solutions to the biofuel, chemical, sugar, water and other processing sectors. SEDL has corporate offices in Chandigarh (UT) and Mohali (Punjab) along with three manufacturing units in Baddi (Himachal Pradesh).

Key financial indicators (audited)

Spray Engineering Devices Limited (Consolidated)	FY2023	FY2024	H1FY2025*
Operating income	392.6	547.3	301.8
PAT	34.7	53.2	28.3
OPBDIT/OI	14.7%	16.2%	14.4%
PAT/OI	8.8%	9.7%	9.4%
Total outside liabilities/Tangible net worth (times)	2.7	1.5	0.8
Total debt/OPBDIT (times)	1.0	0.9	0.6
Interest coverage (times)	7.2	8.9	8.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *Provisional
 PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current (FY2025)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Mar 26, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	20.74	[ICRA]BBB+ (Stable)	-	-	-	-	-	-
Cash credit	Long term	66.73	[ICRA]BBB+ (Stable)	-	-	-	-	-	-
Bank guarantee/LC	Short term	57.53	[ICRA]A2	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund-based – Term loan	Simple
Long term – Fund-based – Cash credit	Simple
Short term – Non-fund based – BG/LC	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click here](#)

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Term loan	Sep 2023	NA	Sep 2030	20.74	[ICRA]BBB+ (Stable)
NA	Cash credit	NA	NA	NA	66.73	[ICRA]BBB+ (Stable)
NA	Bank guarantee/LC	NA	NA	NA	57.53	[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis:

Company name	Ownership	Consolidation approach
SED Engineers & Fabricators Private Limited	100%	Full Consolidation
Sustainable Environment Developers Limited	100%	Full Consolidation

Source: Company data

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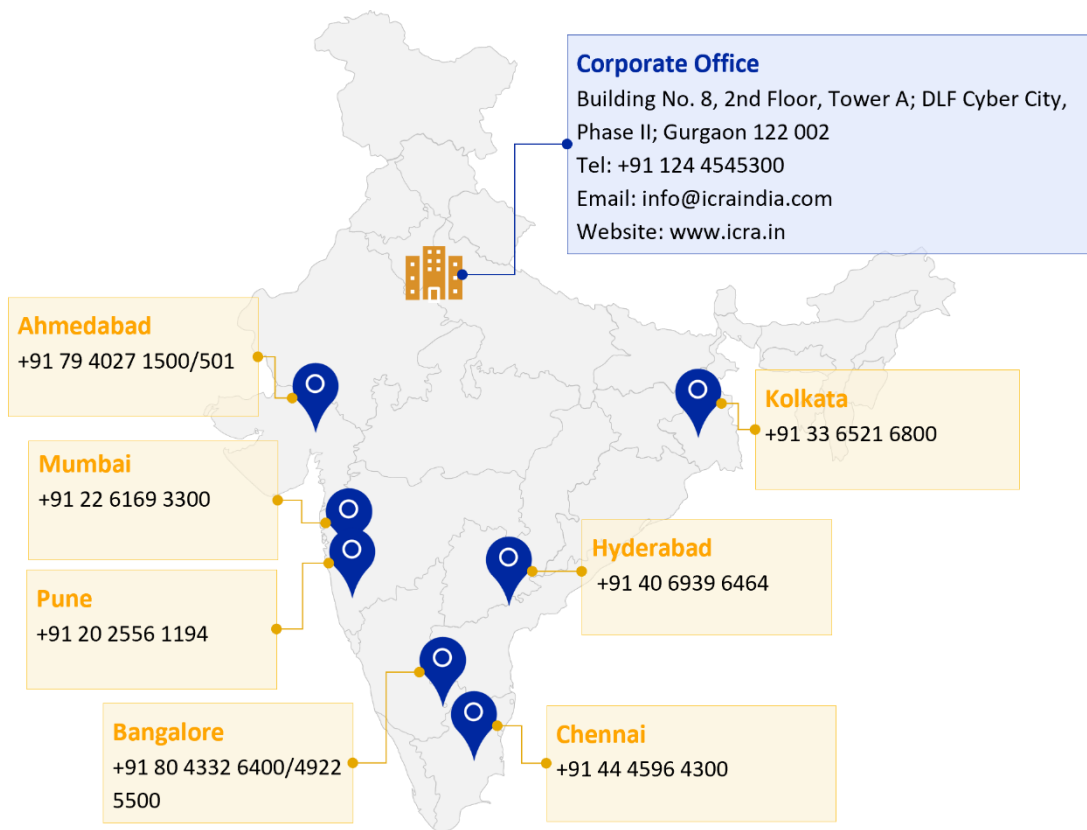
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