

Spray Engineering Devices Limited

Instrument	Amount Outstanding	Rating Action
	Rs Crore	June 2016
Fund based limits-CC/ODBD	21.00	[ICRA]BB-(Stable); upgraded
Fund based limits-WCTL	4.96	
Fund based limits- Unallocated	1.81	
Non fund based limits-LC	6.00	[ICRA]A4; reaffirmed
Non fund based limits-BG	10.00	

ICRA has upgraded its long-term rating on the Rs. 27.77 crore ¹ bank facilities (including unallocated limits of Rs. 1.81 crore) of Spray Engineering Devices Ltd. (SEDL)² to [ICRA]BB- (pronounced ICRA double B minus) from [ICRA]B (pronounced ICRA B). The outlook on the long term rating is 'Stable'. ICRA has also reaffirmed its short term rating of [ICRA] A4 (pronounced ICRA A four) on the Rs.16.00 crore non fund based bank facilities of SEDL.

The rating upgrade takes into account SEDL's steady growth in revenues over the last four years (CAGR of 40% over FY2013 to FY2016) and consequent improvement in operating profits primarily support by favorable response for its product LTEM (*Low Temperature Evaporator Module*) as well as execution of turnkey projects. The rating further factors in the company's moderate revenue visibility, with its order book, as of May 2016, standing at Rs. 99 crore, translating into an order book to operating income ratio of 1.32 times. The rating continues to factor in SEDL's established track record as a supplier of critical energy saving equipment to sugar mills and its relationships with a diverse clientele. SEDL's capital structure remains comfortable characterized by low gearing levels (0.65x as on March 31, 2016) and debt coverage indicators remain moderate in absence of any large repayments.

The rating is however constrained by SEDL's long working capital cycle marked by high receivables and inventory levels. SEDL's inventory levels are high owing to medium tenor of contracts and bulk procurement of raw material in last quarter of FY16 for executing new orders. SEDL has had high level of debtors over the years owing to various factors including weak industry scenario in the past and build up of retention money. ICRA notes that the company has provided for bad and doubtful debts which along with better availability of customer advances have resulted in improvement in SEDL's working capital intensity. Nevertheless the company continues to have substantial level of aged receivables and its bank limits remain highly utilized which remains a rating concern. The ratings continue to factor in the vulnerability of SEDL's profitability to slowdown in the sugar sector.

Going forward, SEDL is expected to undertake projects under line of credit facility facilitated by end client which is expected to improve its working capital cycle. SEDL's ability to execute its current order book in a timely manner while maintaining profitability, ability to maintain its working capital cycle and keep liquidity position at adequate levels will be key rating sensitive factors.

Company Profile

SEDL was formed by the merger of two partnership firms- namely Spray Engineering Devices and C&C Systems which came into effect from December 1, 2004. The company is involved in the manufacturing of equipment for sugar mills, mainly energy saving devices, automation devices and condensers. The company's manufacturing facilities are located at Baddi, Himachal Pradesh. The company is promoted by Verma family and had received an investment of Rs 30 crore in the year 2006.

¹ 100 lakh = 1 crore = 10 million

² For complete rating definition please refer to ICRA website www.icra.in or any of the ICRA Rating Publications

Recent results

SEDL reported, on a provisional basis, a net profit of Rs. 1.30 crore on an operating income of Rs. 80.03 crore for FY 2016, as compared to a net profit of Rs 1.32 crore on an operating income of Rs. 71.75 crore in the previous year.

June 2016

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