

S.E. Power Limited

February 05 2019

Ratings

Facilities	Amount(Rs. crore)	Rating	Rating Action
Long-term Bank Facilities-Term Loan	13.89	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Long Term Fund based Facilities- CC	4.00	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Long/Short Term-Non Fund Based Bank Facilities	0.41	CARE BB; Stable/CARE A4 (Double B; Outlook:Sable/A Four)	Reaffirmed (Reclassified from ST to LT/ST)
Total	18.30 (Rupees Eighteen Crore and Thirty Lakh Only)		

Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of S.E. Power Limited (SEPL) are constrained by competitive nature of the reclaimed rubber division coupled with dependence of demand for reclaimed rubber on the price of natural rubber and, a challenging business environment along with SEPL's dependence on seasonal wind patterns for wind power generation. However, the ratings continue to derive strength from company's experienced and resourceful promoters with demonstrated continuous funding support over the years coupled with long track record of operations in the group companies. The ratings also take into consideration SEPL's shift in focus towards the reclaimed rubber division through a differentiated product offering.

Going forward, the company's ability to achieve the envisaged revenue and profitability will remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak operational performance

The operational performance of the company continues to remain weak on account of subdued demand for reclaimed rubber in the domestic market. SEPL reported total sales of Rs.14.41 crore from reclaimed rubber division in FY18 as compared to Rs.10.98 crore in FY17, registering y-o-y growth of around 31%. However, the company has reported operating loss of Rs.0.15 crore as against PBILDT loss of Rs.1.31 crore in FY17 on account of lower scale of operations due to subdued demand for reclaimed rubber.

Fragmented nature of reclaimed rubber industry leading to high competition but differentiated product offered by the company

The rubber recycling sector is fragmented consisting of few large recyclers in the organized sector like GRP Limited, Sun Exim and Balaji Rubber Industries. The competition is further increased by presence of small scale units having limited local presence. In order to lower the competition in the reclaimed rubber market, SEPL has focused on quality aspects and is offering differentiated product by manufacturing reclaimed rubber with a tensile strength of around 80 to 120 kg/sqcm, whereas the tensile strength of other reclaimed rubber available in the market is around 60 kg/sqcm (tensile of natural rubber is around 200 kg/sqcm). This product variation of the product is expected to help the company in differentiating its product and better position itself in the reclaimed rubber market.

Further, on account of the differentiated product offered by SEPL, the company has added reputed clients in its customer base which include BKT tyres, Sempertans India Pvt. Ltd., CEAT tyres Limited, Apollo Tyres Limited etc.

Dependence of reclaimed rubber demand on price of natural rubber

The demand for reclaimed rubber is highly dependent on the price of natural rubber prevailing in the domestic as well as global market. In FY18, demand for reclaimed rubber continued to remain subdued on account of decline in price of domestic natural rubber (RSS-4), following a negative growth in Chinese consumption due to high U.S tariffs, strengthening dollar, enhanced stock in Thailand and an increase in world stock of natural rubber. Further, the price of natural rubber is expected to remain stagnant (price of RSS-4 declined from Rs.152 per kg in March, 2017 to Rs.120 per kg in April 2018 and Rs.121 per kg in December 2018).

However, as natural rubber results in pressure on the margins of rubber-based products' manufacturers, the manufacturers look to substitute reclaimed rubber for natural rubber in order to sustain their margins without compromising on quality. Therefore, with an aim to optimize their costs, tyre manufacturers have been substituting a

proportion of natural rubber with reclaimed rubber in their manufacturing process while maintaining the quality standards. This is expected to improve the demand for reclaimed rubber in the future.

Key Rating Strengths

Experienced and resourceful promoters with long-track record of operations in the group companies

SEPL is promoted by the Agarwal family based at Agra, which has interests in various sectors, including financial services, education, trading of heavy machinery, automobile dealership, etc. Dr. Arun Gopal Agarwal, Chairman and Mr. Sachin Agarwal, Managing Director of SEPL has a vast experience in diversified sectors. Dr. Agarwal (FCS, FICA, and B.Com) has a business experience of more than 46 years and has also been associated with rubber industry while working with Modi group & Apollo group. Further, the promoters continue to support the operations of the company. As on March 31, 2018, the promoters have infused subordinate unsecured loans to the amount of Rs.40.61 cr (PY: Rs.35.17 cr) to support its operations.

Shift in focus towards reclaimed rubber production which is a major revenue driver

The company had set up a rubber reclamation plant at Vadodara, Gujarat in March 2014 with an installed capacity of 45 TPD (ton per day) at a total project cost of Rs.49.00 crore with a view to tap into the increasing demand for recycled and alternative sources of rubber keeping sustainability in mind. In FY18, revenue from reclaimed rubber division contributed around 92% to the total operating income of the company thereby reflecting the company's shift in focus towards this sector. Revenue from sale of reclaimed rubber increased from Rs.10.98 cr in FY17 to Rs.14.41 cr in FY18. With an increase in demand from automobile tyre manufacturers, the company expects an increase in contribution from reclaimed rubber, which has higher margins.

Analytical approach: Standalone

Applicable criteria

- Criteria on assigning Outlook to Credit Ratings
- CARE's Policy on Default Recognition
- Financial ratios – Non-Financial Sector
- Criteria for Short-term Instruments
- CARE's methodology for Service sector companies

About the Company

Incorporated in August 2010, SEPL is engaged in the manufacturing of reclaimed rubber and production of power through wind mill power generation plants. SEPL is promoted by the Agarwal family based at Agra, which is engaged in various businesses, including financial sector [S E Investments Ltd (SEIL)], trading of heavy machinery [Spring Infradev Limited (SIL)], education sector [Sunil Charitable Society (SCS)] and car dealership (Tata Motor dealership). The company operates five wind mill power plants with four plants of 0.6 MW each and one plant of 0.8 MW located respectively at Chitradurga, Karnataka and Jaisalmer, Rajasthan

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	12.59	15.77
PBILDT	-1.31	-0.15
PAT	-4.40	-5.16
Overall gearing (times)	0.28	0.23
Interest coverage (times)	NM	NM

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Manek Narang

Tel: 011- 45333233

Mobile: 9810596225

Email: manek.narang.careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	June 2022	13.89	CARE BB; Stable
Fund-based - LT-Working Capital Limits	-	-	-	4.00	CARE BB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	0.41	CARE BB; Stable / CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	13.89	CARE BB; Stable	-	1)CARE BB; Stable (06-Nov-17)	1)CARE BB+ (21-Sep-16)	1)CARE BB+ (28-Oct-15)
2.	Fund-based - LT-Working Capital Limits	LT	4.00	CARE BB; Stable	-	1)CARE BB; Stable (06-Nov-17)	1)CARE BB+ (21-Sep-16)	1)CARE BB+ (28-Oct-15)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	0.41	CARE BB; Stable / CARE A4	-	1)CARE A4 (06-Nov-17)	1)CARE A4 (21-Sep-16)	1)CARE A4 (28-Oct-15)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)Withdrawn (06-Nov-17)	1)CARE A4 (21-Sep-16)	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC0716