

S.E.Power Ltd

November 06, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	21.45 (reduced from Rs.33.12 crore)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB+ (Double B Plus)
Short-term Bank Facilities	2.50 (reduced from Rs.4.50 crore)	CARE A4 (A Four)	Reaffirmed
Total Facilities	23.95 (Rupees Twenty Three Crore and Ninety Five Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the long term rating of S.E. Power Limited (SEPL) takes into account continuous losses at net level along with high working capital cycle. The ratings are further constrained by SEPL's dependence on seasonal wind patterns for wind power generation and presence of the company in a highly competitive reclaimed rubber industry coupled with dependence of demand for reclaimed rubber on the price of natural rubber.

The ratings, however, 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 stable track record of operating wind mills since 2006 and differentiated product offering by the company.

Going forward, SEPL's ability to derive the envisaged benefits from rubber reclamation division and maintain profitability amidst volatility in rubber prices would be 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. Although, the SEPL reported total sales of Rs.11.54 crore from reclaimed rubber division in FY17 as compared to Rs.7.99 crore in FY16, registering y-o-y growth of around 44%, major source of revenue was from the sale of crumb rubber (an intermediate product in the production process of reclaimed rubber), but the company has reported operating loss of Rs.1.31 crore as against PBILDT of Rs.0.71 crore in FY16 on account of lower realizations and high cost of operations due to lower scale of operations.

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. Since increase in price of natural rubber results in pressure on the margins of rubber-based products' manufacturers, the manufacturers substitute reclaimed rubber for natural rubber in order to sustain their margins. In FY17, demand for reclaimed rubber continued to remain subdued on account of decline in price of domestic natural rubber (RSS-4), following drop in global prices of natural rubber due to slowing economy of China as well as falling crude

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

oil prices. However, on account of improvement in price of domestic natural rubber in recent months (price of RSS-4 improved from Rs.129 per kg in April, 2016 to Rs.152 per kg in March, 2017 and Rs.134 per kg in September 2017, demand for reclaimed rubber is expected to improve.

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 superior quality of reclaimed rubber being offered by SEPL, SEPL is expecting orders from established players in the automobile tires sector like Apollo Tyres, JK Tyres, CEAT Tyres as well as Continental AG, one of the leading tire manufacturers in the world.

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 GopalAgarwal, Chairman and Mr.Ravindra Kumar 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 infused unsecured loans of Rs.11.39 crore in FY17 to support the operations of the company.

Five operational wind mills with stable track record of generation and sale of power; however dependence on seasonal wind patterns for power generation

The company operates five wind mill power plants with four plants of 0.60 MW each and one plant of 0.80 MW located respectively at Chitradurga, Karnataka and Jaisalmer, Rajasthan. All these plants were commissioned under SEIL in FY05 and FY06.

However, the wind farms remain exposed to inherent risk of weather fluctuations leading to variations in the wind patterns which affects the Plant Load Factor (PLF). Generally, the wind farms enjoy high PLF during June – November period (monsoon period). However, un-favourable wind conditions in the other half of the year results in lower PLF, thereby impacting the revenue derived from the same during the said period. During FY17, average PLF stood at 15.58% (PY: 22%) for wind power plants based in Karnataka and 13.19% (PY: 12%) for plant based in Rajasthan.

Analytical approach:Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

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. The power generated from these sources is sold to the respective state governments through Power Purchase Agreements (PPA). Further, the company has set up a rubber reclamation plant at Vadodara, Gujarat in March 2014 with an installed capacity of 45 TPD (tonne per day) at a total project cost of Rs.49.00 crore.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	9.60	12.59
PBILDT	0.71	-1.31
PAT	-2.47	-4.40
Overall gearing (times)	0.88	0.28
Interest coverage (times)	1.62	NM

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information:NA

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.

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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	-	-	March 2022	17.45	CARE BB; Stable
Fund-based - LT-Working Capital Limits	-	-	-	4.00	CARE BB; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.50	CARE A4
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	0.00	Withdrawn

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	17.45	CARE BB; Stable	-	1)CARE BB+ (21-Sep-16)	1)CARE BB+ (28-Oct-15)	1)CARE BBB- (23-May-14)
2.	Fund-based - LT-Working Capital Limits	LT	4.00	CARE BB; Stable	-	1)CARE BB+ (21-Sep-16)	1)CARE BB+ (28-Oct-15)	1)CARE BBB- (23-May-14)
3.	Non-fund-based - ST-BG/LC	ST	2.50	CARE A4	-	1)CARE A4 (21-Sep-16)	1)CARE A4 (28-Oct-15)	1)CARE A3 (23-May-14)
4.	Fund-based - ST-Bills discounting/ Bills purchasing	ST	-	-	-	1)CARE A4 (21-Sep-16)	-	-

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