S. E. POWER LIMITED
CIN : L40106GJ2010PLC091880

PHOENIX
RUBBER REBORN
www.phoenixrubberreborn.com

Date: 06th February, 2019

The Manager
Department of Corporate Relationship
BSE Limited
25 P. J. Towers Dalal Street,
Mumbai-400001

The Asstt. Vice President
National Stock Exchange of India Limited
ExchangePlaza, Bandra Kurla Complex
Bandra (East)
Mumbai-400051

Ref: Scrip Code:534598

Scrip symbol: SEPOWER

Sub. : Intimation under Regulation 30 (4) of Securities and Exchange Board of India (Listing Obligations and disclosure Requirements) Regulations, 2015-Revision in Credit Rating

Dear Sir,

In accordance with the said Regulations, we wish to inform that CARE Ratings Limited, vide its press release dated 05th February, 2019, has assigned the following ratings to the Company:

Facilities	Amount (Rs. Crores)	Rating	Remarks
Long Term Bank Facilities-Term Loan	13.89 (reduced from Rs. 17.45 Crore)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities-Fund Based	4.00	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Long/Short Bank Facilities-Non Fund Based	0.41	CARE BB; Stable/CARE A4 (Double B; Outlook: Stable/ A Four	Reaffirmed (Reclassification from ST to LT/ST)
Total Facilities	**18.30 (Rupees Eighteen Crores and Thirty Lakh Only)**		

Thanking You,

Yours Faithfully,
S. E. Power Limited

(LIPIKA GARG)
Company secretary

Encl.: Press Release

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, Sempertrans 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.*

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