

Press Release

SEC Industries Private Limited

July 22, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.60	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	53.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	82.60	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B 'Minus'**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.82.60 crore bank facilities of SEC Industries Private Limited (SEC). The outlook is '**Stable**'.

The rating reaffirmed favourably factors in its improved operating margins and adequate liquidity, average financial risk profile. The rating however is constrained by highly intensive working capital management.

About the Company

Established in 1954 and based in Hyderabad (Telangana), SEC was set up as a partnership firm by Mr. D. Seshagiri Rao, managing partner and other family members as the partners of the firm. In November 1997 the firm changed its constitution to private limited company and currently is promoted by Mr. D. Seshagiri Rao (Chairman), Mr. D Vidyasagar (Managing Director) and Ms. D Charumathi (Director). SEC is into Aerospace and Defence engineering and engaged in the business of manufacturing and trading of precision components in defence, aerospace sector and naval systems.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the SEC Industries Private Limited (SEC) to arrive at this rating

Key Rating Drivers

Strengths

Promoters extensive experience; established track record of operations in defence manufacturing industry

SEC is promoted by Mr. D. Seshagiri Rao (Chairman), Mr. D Vidyasagar (Managing Director) and Ms. D Charumathi (Director). Mr. D Vidyasagar, son of Mr. D Seshagiri Rao, has been part of the day-to-day operations of the company for more than 3 decades. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key customers of the company include reputed names like Israel Aerospace Industries Limited, Defence Research and Development Organization (DRDO), Bharat Dynamics Limited (BDL), Indian Space Research Organisation (ISRO) - Vikram Sarabhai Space Centre (VSSC) amongst others. The company reported revenue of Rs. 87.64 Cr in FY22(Provisional) against Rs.179.48Cr in FY21. Acuite believes that SEC will continue to derive benefits from its experienced management and established presence and track record of operations over the medium term.

Improved margins despite decline in revenue in FY22:

SEC Industries Private Limited (SIPL) is into manufacturing and trading of defence components related to aero and defence sector. The company is the licensed offset partner to provide trading services. The company earns commission of 3 to 4 percent from trading activity. SIPL does the subcontract works / Job works received from DRDO, Vikram sarabhai space centre(VSSC) and others. The company reported revenue of Rs. 87.64 Cr in FY22 against Rs.179.48Cr in FY21. This downfall in revenue is mainly due to decline of orders in trading activity. The contribution to revenue by trading activity is decreed to 41percent in FY21 from 77 percent in FY21. From FY23, SIPL is going to concentrate on manufacturing and reduce the trading activity. The company is planning a Capex of Rs.16cr for expansion of plant and machinery and expected to start commercial production from January 2023. The EBITDA and PAT margins stood at 8.17 percent and 0.30 percent respectively for FY22. Acuite believes that SIPL's revenue will improve in medium term on account of improving capacity and healthy order book.

Average financial risk position:

The financial risk profile of SIPL is average marked by low gearing and debt protection metrics. Net worth of the company stood at Rs.49.65 Cr as on March 31, 2022(Provisionals) as against Rs 48.71Cr on March 31, 2021. Gearing levels (adjusted Debt to equity) stood low at 0.88 times as on March 31, 2022(Provisionals) as against 0.95 times on March 31, 2021. Interest coverage ratio improved to 2.12 times as on March 31, 2022(Provisionals) from 2.26 times on March 31, 2021. Debt service coverage ratio(DSCR) stood at 1.52 times as on march 31, 2022 (Provisionals). Total outside liabilities to total net worth (TOL/TNW) stood at 1.36 times as on March 31, 2022 (Provisionals) against 1.67 times as on March 31, 2021. Acuite believes that financial risk position of the company will improve over the medium term.

Weaknesses

Working Capital Intensive operations:

The working capital of the company is highly intensive marked by Gross current assets (GCA) days of 251 days as on March 31, 2022 (Provisionals) against 148 days as on March 31, 2021. Debtor days and creditor days stood at 133 days and 54 days respectively as on March 31, 2022(Provisionals). Inventory days stood at 75 days as on March 31, 2022(Provisionals). Current ratio improved to 1.75 times in FY22(Provisionals). Acuite believes that working capital management of the company will improve over the medium term.

Presence of inherent risk in the sector; impact of change in regulations

SEC, on account of the defence offset programme has been experiencing significant growth in the operating income due to the boost in exports activity. Israel Aerospace Industries Limited (IAI) with the assistance from SEC, which is licensed as an Indian Offset Partner (IOP) by the Government of India has been able to fulfil the offset criteria by reverse purchasing the components from the company as per Defence Acquisition Procedure (DAP) 2020. Acuite believes that any critical change and modification in the regulations and policy by the government of India along with the inherent risk in the defence manufacturing sector can

possess an adverse impact on the trading operations of the company. However, the risk is mitigated to an extent on the account of presence of manufacturing business of the company and well established business relationship with various defence PSUs and labs of DRDO for acquiring regular orders for manufacturing of precision components.

Rating Sensitivities

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.

Material covenants

None

Liquidity: Adequate

SIPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.3.86Cr for FY22 (Provisionals), with debt repayment obligations of Rs.0.72Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.5.00Cr – Rs.7.50Cr over the medium term. The company's working capital operations are moderate, marked by GCA of 251 days for FY22 (Provisionals). Unencumbered cash and bank balances stood at Rs.3.10 Cr as on March 31, 2022(Provisionals). The current ratio of the company stood at 1.75 times in FY22. Bank limits utilization of cash credit stood moderate at ~74.50 percent and BG stood at 56.20 percent over the past 12 months ending 30 March, 2022. Acuité believes that the liquidity position of the company is likely to remain adequate on account of adequate cash accruals against its debt repayments over the medium term.

Outlook: Stable

Acuité believes that SEC will continue to benefit over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive', in case of increasing manufacturing activity in the defence aerospace and naval system sector leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SEC registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	179.48	132.72
PAT	Rs. Cr.	1.10	1.63
PAT Margin	(%)	0.61	1.23
Total Debt/Tangible Net Worth	Times	0.95	0.75
PBDIT/Interest	Times	2.26	2.56

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
11 May 2021	Proposed Bank Facility	Long Term	4.42	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	4.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Term Loan	Long Term	0.80	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	12.38	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	50.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A3 Reaffirmed
South Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.42	ACUITE BBB- Stable Reaffirmed
South Indian Bank	Not Applicable	Term Loan	17-11-2018	10.60	30-04-2027	12.38	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	28-08-2020	Not available	05-09-2022	0.80	ACUITE BBB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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