



Press Release
SEC Industries Private Limited
October 19, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.60	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	53.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	82.60	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and its short term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**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**'.

Reason for downgrade

The rating downgrade reflects the deterioration in the business risk profile of the company in FY23. The revenue of the company declined and stood at Rs.60.81 crore in FY2023 as against the revenue of Rs.87.71 crore in FY2022. The company has achieved revenue of ~Rs.25.60 crore in till September 2023. The operating margins have however improved and stood at 10.16 percent in FY2023 as against 8.65 percent in FY2022. The company was earlier engaged in manufacturing and trading of the products. However, the company has stopped the trading activity due to changes in the Defence Acquisition Procedure (DAP) regulations, which has led to decline in the revenues. Moreover, the stretched liquidity position marked by low net cash accruals against repayment obligations also provide a negative bias to the rating.

The rating continues to take comfort from the established track record of operations, reputed clientele as well as the moderate financial risk profile of the company. Going forward, the company's ability to scale up its operations while maintaining its profitability margins and restricting the elongation in its working capital cycle will be key rating monitorables.

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

Acuité 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 Defence Research and Development Organization (DRDO), Bharat Dynamics Limited (BDL), Indian Space Research Organisation (ISRO), Vikram Sarabhai Space Centre (VSSC) amongst others. Acuité believes that SEC will continue to derive benefits from its experienced management and established presence and track record of operations over the medium term.

Moderate financial risk position

The tangible net worth of the company stood at Rs.48.84 crore as on March 31, 2023, as against Rs.48.37 crore as on March 31, 2022. The gearing of the company stood low at 0.85 times as on March 31, 2023, as against 1.02 times as on March 31, 2022. The total debt of the company consists of long-term debt of Rs.23.33 crore, unsecured loans of Rs.3.56 crore and short-term debt of Rs.10.68 crore as on March 31, 2023. The interest coverage ratio stood at 2.31 times as on March 31, 2023, as against 1.93 times as on March 31, 2022. The DSCR stood at 1.02 times as on March 31, 2023, as against 1.52 times as on March 31, 2022. Acuite believes that financial risk position of the company will remain moderate in the medium term.

Weaknesses

Working Capital Intensive operations

The company's working capital operations are intensive as evident from the GCA days of 213 days as on March 31, 2023, as against GCA days of 238 days as on March 31, 2022. The inventory days stood at 86 days for FY23 as against 76 days for FY22. The inventory consists majorly of raw materials and work in progress. The process of conversion from raw materials to finished goods takes around 6-9 months. Average inventory holding period is around 4-6 months. The debtors' days stood at 92 days for FY23 as against 134 days for FY22. The average credit period allowed to the customers is around 90 days. The creditors days stood at 98 days for FY23 against 57 days for FY22. The average credit period received from the supplier is around 90-120 days. The average utilization of the bank limits is moderate at around 67 percent for six months ending September '2023.

Susceptible to volatility in raw material prices

As the major raw material for the products is steel, any fluctuations in the raw material prices may impact the margins of the company.

Rating Sensitivities

Any deterioration in working capital cycle and liquidity profile of the company.
Any deterioration in scale of operations and leverage position of the company.

All Covenants

None

Liquidity position: Stretched

The company has a stretched liquidity position as reflected by the low net cash accruals as against the maturing debt obligations. The company generated cash accruals of Rs.4.11 crore in FY23 as against maturing debt obligations of Rs.3.98 crore over the same period. The company is estimated to generate cash accruals of Rs.4.04-4.95 crore over the period 2024-2025 against maturing debt obligations of Rs.5.10-5.22 crore over the same period. The gap is expected to be funded by infusion of unsecured loans by promotor group. The company maintains unencumbered cash and bank balance of Rs.0.03 crore as on March 31, 2023. The current ratio stood at 1.71 times as on March 31, 2023.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	60.81	87.71
PAT	Rs. Cr.	0.46	(0.33)
PAT Margin	(%)	0.76	(0.38)
Total Debt/Tangible Net Worth	Times	0.85	1.02
PBDIT/Interest	Times	2.31	1.93

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jul 2022	Letter of Credit	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	4.42	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	50.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	12.38	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.80	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A4+ Downgraded
South Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BB+ Stable Downgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BB+ Stable Downgraded
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A4+ Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.90	ACUITE BB+ Stable Downgraded
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.32	ACUITE BB+ Stable Downgraded
South Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.38	ACUITE BB+ Stable Downgraded

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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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