

SEPC Ltd — 17 May 2025 Credit Rating Summary

Section	Details
Agency	CRISIL Ratings (Report Date: May 17, 2025)
Rating Change	BBB- → BB+ (Downgraded by 1 notch); Short Term: A3 → A4+
Outlook (Current vs Prev)	Negative vs Negative (Maintained Negative due to continued liquidity pressure)
Key Drivers of Change	<ol style="list-style-type: none"> LC Devolvement: Failure to meet Letter of Credit (LC) payments in April and May 2025 due to tight credit terms with a key supplier. Revenue Underperformance: 9M-FY25 revenue at ₹413 Cr vs ₹438 Cr (YoY), hampered by raw material supply shortages. Working Capital Stress: Unbilled revenue remains high at ~234 days, leading to severe cash flow mismatches. Legal Overhang: Supreme Court order for ₹120 Cr deposit in the Gaja Engineering dispute; while SEPC claims indemnity, any liability remains a critical risk.
Rated Instruments	<ul style="list-style-type: none"> Bank Guarantee: ₹509.91 Cr
Key Observations	<p>Strengths:</p> <ul style="list-style-type: none"> Order Book: Strong pipeline of ₹785 Cr (Dec-24) + ₹2,050 Cr Roshn project win via subsidiary. Low Leverage: Adjusted Debt/Equity improved to 0.25x (Sept-24) post-equity infusion. Promoter Support: Mark AB infused ₹53.16 Cr (quasi-equity) and ₹13 Cr (short-term loans). <p>Risks:</p> <ul style="list-style-type: none"> Execution Lapses: Delayed execution of older low-margin projects. Weak Coverage: Interest coverage ratio is thin at 1.2x (FY24). Liquidity: "Stretched" status; heavily reliant on upcoming rights issues and promoter support.
Investor Impact	<ul style="list-style-type: none"> Growth: Dependent on the commencement of the ₹2,050 Cr Saudi project in FY26. Margins: Improving (7.4% in 9M-FY25 vs 4.8% in FY24) but vulnerable to RM price volatility. Leverage: Solvency is high (low debt), but operational liquidity is near-default levels. Dilution Risk: Continuous reliance on Rights Issues (₹300 Cr already done; more planned) to fund working capital.
Agency / Cross Analysis	<p>Same Agency: In 2024, CRISIL maintained BBB-/Negative expecting recovery. This review acknowledges that the recovery failed to materialize, transitioning from "potential stress" to "actual LC devolvement."</p> <p>Conclusion: Deterioration. Despite a cleaner balance sheet post-restructuring, the inability to manage working capital and supplier payments indicates worsening credit health.</p>
Final Inference	<p>Risk Signal: This is a classic "Liquidity Paradox"—the company has a strong net worth and low debt but is technically struggling to pay routine LCs. For equity investors, the low D/E is deceptive; execution failure and legal liabilities are the primary threats.</p>