SEPC Ltd — FY 2025 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	**Business model is pivoting from a depleting domestic backlog (down 31.6% YoY to □653 Cr) toward a □2,200 Cr international framework agreement in Saudi Arabia to sustain operations.**	□Neutral
2	***Revenue growth of 6.5% to 598 Cr is overshadowed by a critical revenue cliff risk as the order book-to-sales ratio has deteriorated to nearly 1.0x.***	□Negative
3	**Operating margins expanded from 6% to 11% due to improved manufacturing cost management, though sustainability is questioned by the lack of new high-margin domestic wins.**	□Positive
4	***Reported PAT of 25 Cr is of exceptionally low quality, as it is entirely decoupled from cash reality and bolstered by non-cash accounting entries.***	□Negative
5	**Balance sheet deleveraging is evident with total debt reducing from □455 Cr to □358 Cr (D/E 0.24x), though this was achieved via equity infusion rather than operational surplus.**	□Positive
6	***Cash flow from operations is severely stressed at - 133 Cr, indicating that the core business is consuming liquidity rather than generating it.***	□Negative
7	***Growth capex is virtually non-existent at a mere 0.12 Cr, suggesting the company is in "harvest mode" and failing to reinvest in future capacity or competitive advantages.***	□Negative
8	***Earnings quality is compromised by "Other Income" (74% of which is non-cash write-backs) and a massive 1,180 Cr in unbilled contract assets, which are 2x annual revenue.***	□Negative
9	***Governance risks are elevated due to a qualified audit opinion on 295 Cr of Deferred Tax Assets, a 34-day audit trail failure, and KMP compensation exceeding 9% of PAT.***	□Negative
10	***Asset quality risk is acute with 51.5% of trade receivables (288.60 Cr) aged over three years, posing a significant threat of future impairments.***	□Negative
11	**Outlook hinges entirely on the successful conversion of the Saudi "Framework Agreement" into firm, cash-positive contracts to replace the hollowed-out domestic pipeline.**	□Neutral
12	***Investment View: WATCH; the company is a speculative turnaround where survival depends on equity dilution to mask negative cash flows and legacy asset risks.***	□Negative

1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** SEPC Ltd operates as an engineering, procurement, and construction (EPC) company specializing in multi-disciplinary projects including Water Infrastructure (sewerage, water treatment), Process and Metallurgy (mining, mineral processing), and Power (thermal, renewable).
- **Revenue Drivers:** Primary revenue is driven by the execution of domestic water infrastructure projects and industrial EPC contracts. The company is increasingly pivoting toward Solar EPC and Operations & Maintenance (O&M) to create recurring revenue streams.

- **Cost Drivers:** Major costs include Erection, Construction & Operation expenses (80% of revenue), employee benefits, and significant finance costs (interest on restructured debt). Bank charges and guarantee commissions are also major drivers due to the heavy requirement for performance bank guarantees.
- **Industry Position:** SEPC is a mid-tier EPC player currently attempting to transition from a domestic-focused entity to an international contractor with a specific focus on the MENA (Middle East & North Africa) region.
- **Expansion Plans:** The company is aggressively targeting the Saudi Arabian market, highlighted by a ₹2,200 Cr (SAR 893M) Framework Agreement with the Roshn Group for infrastructure works.
- **Acquisitions & Partnerships:** Strategic focus has shifted toward Joint Ventures (JVs) and Framework Agreements in the Middle East to leverage local promoter networks.
- **Capacity Additions:** The company recently received the Final Acceptance Certificate (FAC) for the Hutti Gold Mines Deep Shaft Mining project, providing the pre-qualification (PQ) necessary to bid for future underground mining tenders.
- **Segment Performance:** While domestic water projects remain the legacy core, the company has secured a ₹650 Cr Solar EPC project in Maharashtra and an ₹18 Cr O&M project in Uttar Pradesh.
- **Geographical Presence:** Historically concentrated in India, the company is rapidly expanding its footprint into Saudi Arabia and maintains a presence in the Middle East through its promoter group, Mark AB Capital.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management is executing a "dilution-for-survival" pivot, utilizing equity infusions from Rights Issues to pay down legacy debt and fund working capital for new ventures.
- The strategic focus has shifted toward a "MENA-centric" future, specifically targeting high-growth infrastructure opportunities in Saudi Arabia to outrun domestic balance sheet stagnation.
- The entry into the O&M (Operations & Maintenance) segment is intended to build "sticky," cash-flow-positive revenue to offset the lumpy and capital-intensive nature of traditional EPC work.
- Management highlights the ₹2,200 Cr Framework Agreement with Roshn Group (KSA) as a massive potential revenue runway, though it currently remains a pre-qualification rather than firm orders.
- The company is pivoting into "Green" sectors, including Solar EPC, to align with global infrastructure trends and access new bidding pools.
- The successful completion of the Hutti Gold Mines project is viewed as a milestone that allows the company to bid for niche, high-margin underground mining contracts.
- Management expresses high confidence in generating "sufficient taxable profits" in the future to justify the carrying value of ₹295 Cr in Deferred Tax Assets (DTA), despite auditor skepticism.
- The ongoing Rights Issue strategy (Partly Paid) is being used as a "call option" on shareholders to fund mobilization for international projects.
- The appointment of directors with "Special Situation M&A" and Middle Eastern expertise signals a shift toward international business development and financial restructuring.
- Management Tone: The tone is **"Aggressively Optimistic" and "Performative."** Leadership is attempting to build a narrative of a "New SEPC" (Solar, Saudi, Mining) to bury the "Old SEPC" (Stalled projects, Debt, Auditor Qualifications). The tone is highly promotional, aimed at ensuring the success of the second tranche of the Rights Issue, but remains significantly decoupled from the underlying accounting friction and auditor qualifications.

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

P&L Statement (□Crores)

Line Item	Mar 2025	Mar 2024
Sales -	598.00	561.00
Sales Growth %	6.54	48.07
Expenses -	533.00	527.00
Material Cost % -	0.00	0.00
Raw material cost	0.00	0.00
Change in inventory	0.00	0.00
Manufacturing Cost %	80.00	84.00
Employee Cost %	5.00	6.00
Other Cost %	4.00	5.00
Operating Profit	64.00	34.00
OPM %	11.00	6.00
Other Income -	34.00	46.00
Exceptional items	-13.89	0.05
Other income normal	48.36	46.18
Interest	58.00	52.00
Depreciation	5.00	5.00
Profit before tax	35.00	23.00
Tax %	29.00	0.00
Net Profit -	25.00	23.00
Profit from Associates	0.00	0.00
Exceptional items AT	-10.00	0.00
Profit excl Excep	35.00	23.00
Profit for PE	35.00	23.00
Profit for EPS	25.00	23.00
Profit Growth %	52.00	121.00
EPS in Rs	0.13	0.12
Dividend Payout %	0.00	0.00

Balance Sheet (₹Crores)

Line Item	Mar 2025	Mar 2024
Equity Capital	1,564.00	1,410.00
Reserves	-58.00	-200.00
Borrowings -	358.00	455.00
Long term Borrowings	263.00	298.00
Short term Borrowings	94.00	154.00
Lease Liabilities	2.00	3.00
Preference Capital	0.00	0.00
Other Borrowings	0.00	0.00
Other Liabilities -	523.00	544.00
Non controlling int	2.00	2.00
Trade Payables	411.00	304.00
Advance from Customers	40.00	43.00
Other liability items	70.00	195.00
Total Liabilities	2,387.00	2,209.00
Fixed Assets -	26.00	31.00
Land	2.42	2.42
Building	6.58	7.39
Plant Machinery	52.17	52.17
Equipments	0.12	0.12
Computers	1.11	0.99
Furniture n fittings	0.61	0.61
Vehicles	0.11	0.11
Intangible Assets	0.54	0.54
Other fixed assets	0.42	0.42
Gross Block	64.08	64.77
Accumulated Depreciation	38.08	33.80
CWIP	0.00	0.00
Investments	0.00	1.00
Other Assets -	2,361.00	2,178.00
Inventories	0.00	0.00
Trade receivables -	368.00	300.00
Receivables over 6m	242.00	240.00
Receivables under 6m	212.00	152.00
Prov for Doubtful	-85.00	-93.00
Cash Equivalents	49.00	61.00
Loans n Advances	64.00	137.00

Line Item	Mar 2025	Mar 2024
Other asset items	1,879.00	1,680.00
Total Assets	2,387.00	2,209.00

Cash Flow Statement (□Crores)

Line Item	Mar 2025	Mar 2024
Cash from Operating Activity -	-133.00	-121.00
Profit from operations	52.00	64.00
Receivables	-87.00	8.00
Inventory	0.00	0.00
Payables	141.00	-60.00
Loans Advances	0.00	0.00
Other WC items	-234.00	-131.00
Working capital changes	-180.00	-184.00
Direct taxes	-5.00	-2.00
Cash from Investing Activity -	4.00	-24.00
Fixed assets purchased	-0.12	-0.05
Fixed assets sold	0.00	0.05
Investments purchased	0.00	0.00
Investments sold	0.00	0.00
Interest received	3.17	1.37
Investment in group cos	0.00	0.00
Other investing items	0.67	-25.27
Cash from Financing Activity -	118.00	130.00
Proceeds from shares	200.00	100.00
Proceeds from borrowings	3.00	54.00
Repayment of borrowings	-63.00	-4.00
Interest paid fin	-21.00	-19.00
Dividends paid	0.00	0.00
Financial liabilities	-1.00	-1.00
Other financing items	0.00	0.00
Net Cash Flow	-11.00	-15.00
Free Cash Flow	-133.00	-121.00
CFO/OP	-199.00	-355.00

Key Ratios (₹Crores)

Line Item	Mar 2025	Mar 2024
Debtor Days	225.00	195.00
Inventory Days	0.00	0.00
Days Payable	0.00	0.00
Cash Conversion Cycle	225.00	195.00
Working Capital Days	623.00	523.00
ROCE %	6.00	5.00

3.2 Financial Analysis Summary

- **Revenue** grew by 6.54% to **₹598.00 Cr**, but quality is severely compromised as **Contract Assets** (unbilled revenue) reached **₹1,180.36 Cr**, nearly 2x the annual **Sales**, indicating a massive lag between execution and billing; furthermore, the **Order Book** depleted by 31.6% to **₹653.21 Cr**, signaling a potential future slowdown.
- **OPM %** improved significantly from 6.00% to 11.00% due to lower manufacturing costs (80% vs 84%), yet **Operating Profit** of **₹64.00 Cr** is almost entirely consumed by **Finance Cost** of **₹58.00 Cr**, resulting in a precarious **Interest Coverage** of 1.10x; notably, **₹24.76 Cr** of interest is non-cash, related to effective interest rate measurements on restructured debt.
- **Net Profit** of **₹25.00 Cr** is heavily reliant on **Other Income** of **₹48.36 Cr**, of which **₹33.50 Cr** (74%) stems from "Liabilities written back," a non-cash accounting gain that inflates **PAT** without providing liquidity; excluding these write-backs and a **₹2.13 Cr** fair value gain on loans, the company would have reported a Loss Before Tax.
- **Trade Receivables** rose to **₹368.00 Cr** with a deteriorating **Debtor Days** of 225 days; however, the total outstanding including non-current portions is **₹560.41 Cr**, with a staggering 51.5% (**₹288.60 Cr**) overdue for more than 3 years, posing a massive impairment risk to the **Balance Sheet**.
- **Cash from Operating Activity** remained deeply negative at **-₹133.00 Cr**, diverging sharply from **PAT** (**₹25.00 Cr**) due to a **₹180.00 Cr** drain from **Working Capital changes**, specifically the buildup of unbilled **Contract Assets** and stalled project receivables.
- **Total Debt** decreased from **₹455.00 Cr** to **₹358.00 Cr**, primarily funded by **Proceeds from shares** of **₹200.00 Cr** in the **Cash Flow Statement**, which also helped improve the **Debt / Equity** ratio to 0.24x; however, the conversion of CCDs into equity triggered an **Exceptional Item** loss of **₹13.89 Cr**.
- **Trade Payables** increased by 35% to **₹411.00 Cr**, with **₹78.81 Cr** overdue for more than 3 years, suggesting the company is managing its liquidity crisis by stretching vendor payments, which is reflected as a **₹141.00 Cr** positive swing in the **Cash Flow Statement**.
- **Total Assets** are dominated by **Other asset items** of **₹1,879.00 Cr**, which includes a highly contentious **Deferred Tax** asset of **₹392.90 Cr**; the auditor has qualified the accounts stating there is no "convincing evidence" of future profitability to realize **₹295.48 Cr** of this asset, risking a significant hit to **Net Worth** if written down.
- **ROCE** remains weak at 6.00% and **ROE** at 1.66%, as the business is failing to sweat its bloated asset base (**Asset Turnover** of 0.25x) and is currently dependent on promoter support, evidenced by **₹52.25 Cr** in **Borrowings** from related parties.
- **Other Assets** are heavily impacted by Government Balances (GST/VAT/TDS) which increased to **₹69.95 Cr**; these represent "trapped" credits that lock up liquidity. **Other Expenses** were impacted by an 85% YoY spike in Bank Charges and Guarantee commissions (**₹13.64 Cr**), reflecting the high cost of maintaining performance guarantees for a stressed balance sheet.

- The dominant financial theme of the year is a **"Paper Recovery"** where accounting-led **PAT** and equity-funded deleveraging mask a chronic **CFO** deficit and a fundamental inability of the core EPC business to generate cash.

3.3 Contingent Liabilities & Commitments

- **Pending Litigations:** The auditor highlighted pending litigations and arbitration proceedings (Note 56) which could materially impact the consolidated financial position.
- **Tax Disputes:** The company carries significant "trapped" government balances of ₹69.95 Cr (GST/VAT/TDS) which are subject to realization risks.
- **Guarantees:** The company relies on Corporate Guarantees from Mark AB Capital Investment LLC (Dubai) to secure its borrowings, as standalone credit strength is insufficient.
- **Capital Commitments:** Not explicitly disclosed as a quantitative table in the annual report.

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; □133 Cr CFO outflow vs □25 Cr PAT indicates non-cash accruals.	□	PAT □25 Cr; CFO -□133 Cr	Profits driven by non-cash "Liabilities written back" and DTA recognition while cash is consumed.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — collection efficiency deterioration; receivables grew 20% vs sales growth of only 6.5%.	□	Receivables □560.41 Cr vs Sales □598 Cr	51.5% of receivables (□288.60 Cr) are aged >3 years; indicates severe recoverability risk [Note 11A].
3	Revenue timing (unbilled / contract assets)	Revenue ↑ — aggressive recognition; contract assets of □1,180 Cr are 2x annual revenue, straining liquidity.	□	Contract Assets □1,180.36 Cr vs Sales □598 Cr	POCM method used on stalled projects; includes □268.76 Cr materials at site as "consumed" [Note 15.1].
4	Revenue from related parties %	Neutral — minimal direct revenue impact; JV revenue remains low at under 1% of total.	□	JV Revenue □4.29 Cr	Revenue from SEPC DRS ITPL JV is small relative to total scale [Note 46].
5	Inventory vs revenue growth	Profit ↑ — margin inflation; materials at site classified as contract assets instead of physical inventory.	□	Inventory □0 Cr; Materials at site □268.76 Cr	Materials are treated as project costs in POCM calculation, accelerating profit recognition [Note 15.1].
6	Inventory valuation method change	Neutral — no policy change; standard construction accounting for materials and work-in-progress maintained.	□	No change reported in AR	Accounting policy Note 2.3 remains consistent with prior periods.
7	Exceptional items in operating profit	Profit ↓ — non-cash charge; □13.89 Cr loss on debt-to-equity conversion of CCDs hits bottom line.	□	Exceptional Loss □13.89 Cr	Reflects the accounting cost of extinguishing liabilities through share issuance [Note 40.1].
8	Depreciation rate vs useful life policy	Neutral — consistent rates; depreciation remains flat at □5 Cr despite gross block changes.	□	Depreciation □5 Cr (FY25 & FY24)	Useful lives of plant and machinery (□52 Cr gross block) appear standard for the sector.
9	Provision reversals boosting PAT	Profit ↑ — non-cash gain; □33.50 Cr of liabilities written back accounts for 95% of PBT.	□	Other Income □48.36 Cr; Write-backs □33.50 Cr	Without these non-recurring accounting reversals, the company would report a Pre-Tax Loss [Note 34].
10	Tax rate consistency + cash tax vs P&L tax	Profit ↑ — non-cash tax credit; 29% P&L tax vs minimal cash tax paid.	□	P&L Tax □10 Cr; Direct Tax Paid □5 Cr	Tax expense is an accounting figure; company relies on DTA recognition rather than cash tax parity.
11	CWIP age and stalling projects	Profit ↓ — impairment risk; □74.54 Cr in assets tied to projects halted by regulatory delays.	□	Stalled Project Assets □74.54 Cr	Auditor qualified the report due to lack of evidence for recovery of these stalled project dues [Note 8.1].
12	Deferred tax asset recognition adequacy	Profit ↑ — aggressive asset inflation; □295.48 Cr DTA on losses lacks evidence of future profits.	□	Total DTA □392.90 Cr	Auditor's qualified opinion states no "convincing evidence" exists to support DTA recoverability [Note 41B].
13	RPT quantum and trend	Neutral — liquidity support; □52.25 Cr borrowing from	□	Related Party Debt □52.25 Cr	Heavy reliance on Mark AB Capital for survival; includes

#	Check	Impact	Status	Evidence	Notes Detail
		promoters provides essential working capital.			low-interest (0.10%) unsecured loans [Note 23.2].
14	Dividend paid vs FCF adequacy	Neutral — no dividends; negative FCF of -□133 Cr precludes any shareholder payouts.	□	Dividend □0; FCF -□133 Cr	Cash flow constraints and accumulated losses (Reserves -□58 Cr) prevent dividend distribution.
15	Audit Trail Integrity	Neutral — Governance risk; edit log facility not enabled at database level for 34 days.	□	April 1 to May 4, 2024	Risk of undetected manual overrides in financial records during the transition period.
16	Order Book Depletion	Revenue ↓ — Growth risk; backlog fell 31.6% while revenue growth was marginal.	□	Backlog □653 Cr vs □955 Cr	Signaling a potential revenue cliff in FY26-27 as existing projects reach completion.

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters * **Audit opinion type:** ***Qualified Opinion*** * **Qualified Opinion: DTA:** Carrying value of 295.48 Cr DTA on losses lacks "convincing evidence" of future profitability. Management is "confident" based on order book, but auditor remains skeptical. Risk of massive asset write-down. * **Qualified Opinion: Stalled Projects:** 74.54 Cr in Contract Assets/Receivables are overdue on stalled projects. Management claims recovery is certain via negotiations/liquidation assets. Risk of impairment. * **KAM: Provisioning for Expected Credit Loss (ECL):** The auditor flagged the complexity and subjectivity in estimating future cash flows for long-overdue construction dues and determining "significant increase in credit risk." * **Audit Trail (Rule 11g):** The company failed to maintain an enabled audit trail (edit log) facility at the database level for its accounting software from April 1, 2024, to May 4, 2024. * **Going Concern:** Financial statements are prepared on a going concern basis despite a massive negative CFO of -133.00 Cr.

B. Related Party Transactions

Party	Relationship	Nature	Amount (Cr)	Concern
Mark AB Capital Investment India	Promoter Group	Unsecured Loan Received	3.25 Cr	***Survival Dependency***
Mark AB Capital Investment India	Promoter Group	Interest on Loan (0.10%)	0.04 Cr	**Preferential Rate**
Mokul Shriram EPC JV	Joint Operation	Outstanding Receivables	16.69 Cr	***Stagnant Balance***
SEPC DRS ITPL JV	Joint Operation	Revenue Recognized	4.29 Cr	Neutral
Mark AB Welfare Trust	Promoter Entity	Pledged Shares for Loans	14.25 Cr Shares	***Forced Liquidation Risk***

- **Preferential Loans:** The promoter loan of 3.25 Cr carries a nominal interest rate of 0.10%, resulting in a non-cash "gain on initial recognition" of 2.13 Cr, artificially inflating Other Income.
- **Stagnant JV Dues:** Receivables from Mokul Shriram EPC JV (16.69 Cr) remain outstanding despite the company's severe cash crunch.
- **Pledged Trust Shares:** 14.25 Cr shares held by Mark AB Welfare Trust are pledged to secure company loans, creating a risk of market volatility triggering margin calls.

C. Shareholding * **Promoters:** 33.37% (Up from 26.97% in Mar 2024) * **Public:** 66.63% * **Pledged Shares:** 14.25 Cr shares held by Mark AB Welfare Trust are pledged, representing ~27% of the total promoter holding.

D. Board Composition + KMP Compensation * **Total Directors:** 7 | **Independent %:** 57.14% | **Women Directors:** 1 (Ms. S Gayathri). * **KMP Compensation:** * N K Suryanarayanan (MD & CEO): 0.80 Cr (0% YoY growth; 1.25% of EBITDA). * R S Chandrasekharan (CFO): 0.54 Cr (0% YoY growth; 0.84% of EBITDA). * V Jaiganesh (WTD): 0.72 Cr (est. p.a.). * **Analysis:** Total KMP compensation is stable despite an 88% jump in Operating Profit. No family relations between KMPs or Directors were disclosed.

F. Capital Allocation & Capex

Action	FY Current (Cr)	FY Prior (Cr)	Signal
Equity Issuance	200.00 Cr	100.00 Cr	**Positive (Lifeline)**
Net Debt Change	-97.00 Cr	46.00 Cr	**Deleveraging**
Working Capital Investment	180.00 Cr	184.00 Cr	□
Capex	0.12 Cr	0.05 Cr	□

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex:** N/M (CFO is negative 133.00 Cr).
  - **Nature of Capex:** Purely maintenance; growth capex is non-existent (**0.12 Cr**).
  - **Deployment Efficiency:** Revenue grew 6.54% while the order book collapsed by 31.6%, signaling backlog liquidation without replenishment.
  - **Key Takeaways: The persistent neglect of capex (0.12 Cr on a 598 Cr revenue base) indicates the company is in a "harvest/survival" mode, potentially hollowing out its long-term execution capacity.**

H. Risks * ***DTA Impairment:*** 295.48 Cr of DTA lacks "convincing evidence" of recovery. **Potential Impact:** 25% erosion of Net Worth if written off. (Severity: □High) * ***Stalled Projects:*** 74.54 Cr tied up in projects with no progress. **Potential Impact:** Direct liquidity loss and 100% write-down risk. (Severity: □High) * ***Negative CFO:*** PAT (25 Cr) vs CFO (-133 Cr) divergence. **Potential Impact:** Inability to service debt without constant equity dilution. (Severity: □High) * ***Order Book Depletion:*** Backlog fell 31.6% to 653 Cr. **Potential Impact:** Revenue cliff risk in FY26-27. (Severity: □High)

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	2	→	Order book down 31.6%; 50% customer concentration.	Weakening competitive position with a depleting domestic backlog.
Financial Health	2	↑	D/E 0.24x; CFO -133 Cr; Interest Coverage 1.1x.	Deleveraging via equity is positive, but core cash flow is severely stressed.
Earnings Quality	1	→	CFO < PAT; 74% of Other Income is write-backs; Qualified Audit.	Profits are accounting-driven (write-backs/DTA) with no cash backing.
Management & Governance	2	→	Qualified opinion on DTA/Stalled projects; Audit trail failure.	Persistent auditor qualifications and aggressive accounting policies.
Capital Allocation & Earnings Visibility	1	↓	Capex 0.12 Cr; Order book 653 Cr vs 1,180 Cr Contract Assets.	Value-destructive; capital trapped in working capital with no growth reinvestment.

BUSINESS POSITIVES (for this company this year) * **Deleveraging:** Total Debt reduced from ₹455 Cr to ₹358 Cr, improving the Debt/Equity ratio to 0.24x. * **International Pivot:** Secured a ₹2,200 Cr Framework Agreement with Roshn Group in Saudi Arabia, providing a potential future revenue runway. * **Operational Milestone:** Received Final Acceptance Certificate for Hutti Gold Mines, enabling bidding for niche underground mining projects. * **New Segment Traction:** Secured a ₹650 Cr Solar EPC project, diversifying away from legacy water infrastructure. * **Margin Expansion:** OPM % improved from 6.00% to 11.00% due to better manufacturing cost management.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * **Severe Cash Flow Mismatch:** Reported PAT of ₹25 Cr against a deeply negative CFO of -₹133 Cr. * **Auditor Qualification:** Auditor qualified the report regarding the recoverability of ₹295.48 Cr in Deferred Tax Assets and ₹74.54 Cr in stalled projects. * **Working Capital Trap:** Contract Assets (unbilled revenue) of ₹1,180.36 Cr are nearly 2x annual revenue, locking up liquidity. * **Order Book Collapse:** The backlog depleted by 31.6% YoY (from ₹955 Cr to ₹653 Cr), creating a revenue cliff risk. * **Poor Earnings Quality:** 74% of Other Income (₹33.50 Cr) consists of non-cash "liabilities written back." * **Receivables Ageing:** 51.5% of total receivables (₹288.60 Cr) are overdue for more than 3 years.

OVERALL SCORECARD SUMMARY SEPC Ltd is currently in a precarious state where financial survival is entirely dependent on equity dilution and promoter-backed lifelines rather than operational cash flow. While the balance sheet has technically deleveraged, the quality of assets is highly suspect due to massive unbilled contract assets and contentious deferred tax recognitions that have drawn auditor qualifications. The business is essentially liquidating its domestic backlog without sufficient new order wins, leading to a "harvest" mode characterized by near-zero growth capex. Consequently, the company is on a stable but high-risk trajectory, where any failure to convert the Saudi "Framework Agreement" into firm cash-flow-positive orders could lead to a technical default or further massive dilution.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Qualified Opinion on DTA (295 Cr) and Stalled Projects (74 Cr).
2	Promoter pledge = 0?	□	14.25 Cr shares held by Mark AB Welfare Trust are pledged.
3	KMP pay < 5% of PAT?	□	Total KMP pay is ~□2.34 Cr, which is ~9.4% of PAT (□25 Cr).
4	RPT quantum < 5% of revenue?	□	New loans (3.25 Cr) are < 1% of revenue.
5	Board > 50% independent?	□	4 out of 7 directors (57.14%) are independent.
6	At least 1 woman director?	□	Ms. S Gayathri serves on the board.
7	No statutory dues outstanding?	□	No major defaults reported in the provided snippets.
8	No fraud reported?	□	No fraud reported by auditors.
9	Audit trail enabled?	□	Audit trail facility was disabled from April 1 to May 4, 2024.
10	Frequent Auditor change	□	MSKA & Associates remains the auditor.
Final line: "Total: 6/10 □— Governance Rating: 2"			

Part C: Investor Verdict

THESIS: SEPC is a speculative turnaround play attempting to outrun legacy domestic failures and a hollowed-out balance sheet by pivoting to Saudi Arabian infrastructure projects funded by retail equity dilution. **OVERALL STANCE:** WATCH **RATIONALE:** The massive divergence between PAT and CFO, combined with auditor qualifications on 20% of equity, makes the current "recovery" purely accounting-driven. **RE-EVALUATE WHEN:** Contract Assets as a % of Revenue drops below 100% (currently ~200%). **BULL CASE:** Conversion of the □2,200 Cr Roshn Framework Agreement into firm, 15%+ OPM contracts with mobilization advances. **BEAR CASE:** Auditor forces a write-down of the □295 Cr DTA, triggering a breach of net worth covenants and halting the Rights Issue. **KEY MONITORABLE:** Receivables > 3 years: □288.60 Cr → Watch for any further increase or sudden write-offs.

7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Margin Trajectory	OPM at 6% (□34 Cr).	OPM at 11% (□64 Cr).	Operating margins doubled on paper, yet interest costs still consume 90% of operating profit, leaving no margin for error.
Capital Allocation	□100 Cr raised via rights issue; focus on debt-to-equity conversion.	□200 Cr raised via rights issue; focus on active deleveraging (Debt down □97 Cr).	The company has transitioned into a "dilution machine" that relies on continuous retail equity infusions to pay down legacy debt.
Working Capital Anomalies	Contract Assets at □920 Cr; Other Payables spiked 525%.	Contract Assets at □1,180 Cr (2x Sales); Payables increased 35%.	Revenue recognition has become increasingly aggressive, with unbilled work now representing nearly two years of total sales.
Management Tone	Survivalist; focused on domestic resolution and "paper recovery."	Aggressively Optimistic; focused on a "MENA-centric" pivot and Saudi Arabia.	Leadership is attempting to outrun domestic balance sheet stagnation by pivoting the narrative toward high-risk international growth.
Order Book Health	Backlog at □1,010 Cr; 49% customer concentration.	Backlog at □653 Cr; 50% customer concentration.	The company is liquidating its existing backlog without sufficient replenishment, creating a significant revenue cliff risk for the coming periods.

7.2 Persistent Patterns

- **Negative Operating Cash Flow (CFO):** In both periods, the company reported positive PAT while suffering massive cash outflows (-□121 Cr vs -□133 Cr), signaling a **fundamental decoupling of accounting profits from cash reality**.
- **Auditor Qualifications on Net Worth:** The auditor consistently qualified the recoverability of **Deferred Tax Assets (~□300 Cr) and stalled projects (~□75 Cr)**, suggesting that roughly 25-30% of reported equity may be non-existent.
- **Chronic Capex Neglect:** Reinvestment in physical assets remains near zero (□0.05 Cr vs □0.12 Cr), indicating the company is **hollowing out its long-term execution capacity** to fund short-term survival.
- **Reliance on Non-Cash Income:** Both years feature significant non-cash gains (RPT loan fair valuation in FY24; □33.5 Cr liability write-backs in FY25) to **artificially inflate the bottom line**.
- **Aged Receivables Stagnation:** Over 50% of trade receivables remain **overdue for more than 3 years**, representing "dead money" that management continues to carry without full impairment.
- **Internal Control Weaknesses:** Recurring failures to maintain a continuous **audit trail (Rule 11g)** highlight a persistent and material weakness in the company's financial governance and oversight.
- **Promoter Lifelines:** The business remains **incapable of self-sustenance**, requiring ongoing promoter intervention via sub-market interest loans (0.10%) to maintain basic liquidity.