SEPC Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	***Business quality is constrained by a shrinking domestic order book (down to 1,010 Cr) and high revenue concentration, with 49% of turnover derived from a single segment.***	Negative
2	**Revenue grew 48.07% YoY to ₹561 Cr, driven by improved execution and a pivot toward a massive ₹2,700 Cr ($325M) international cement project in Uzbekistan.**	Positive
3	***Operating margins are under pressure as the company reports a "paper recovery" where incremental contract assets (187 Cr) actually exceeded incremental revenue (182 Cr).***	Negative
4	**Bottom-line performance turned positive with a PAT of ₹23 Cr, marking the first profitable year since restructuring, though this is heavily supported by non-cash items.**	Positive
5	**Debt profile is artificially stabilized by a ₹40 Cr promoter loan at a nominal 0.10% interest rate and ₹100 Cr raised via rights issues to prevent liquidity collapse.**	Positive
6	***Cash flow from operations (CFO) plummeted to - 121 Cr, representing a massive divergence from PAT and indicating that growth is not generating liquid capital.***	Negative
7	***Capital allocation remains value-destructive with negligible capex of 0.05 Cr and a ROCE of 5%, which sits significantly below the company's cost of debt.***	Negative
8	***Earnings quality is critically low, characterized by 920 Cr in unbilled contract assets and auditor qualifications on 308.71 Cr of Deferred Tax Assets (25% of Net Worth).***	Negative
9	***Governance is rated weak due to a 10 Lakh insider trading penalty, missing audit trails at the database level, and a qualified audit opinion on 32% of net worth.***	Negative
10	***Liquidity risks are acute, evidenced by a 525% spike in "Other Payables" to 101.65 Cr and 80% of trade receivables being aged over six months.***	Negative
11	Outlook hinges entirely on the Uzbekistan project execution; while it offers a massive revenue runway, it introduces significant geographical and concentration risks.	Neutral
12	Investment View: Watch; stance is speculative as survival depends on converting unbilled revenue to cash and avoiding a massive DTA write-down.	Neutral

1. Business overview (In Bullet Points)

- **Business Segments:** SEPC Ltd operates primarily in the Engineering, Procurement, and Construction (EPC) sector, focusing on Water Infrastructure (treatment plants, distribution), Process and Metallurgy (cement, steel plants), and Power (thermal, renewable) projects.
- **Revenue Drivers:** Growth is currently driven by the execution of domestic water projects (e.g., Jharkhand) and a strategic pivot toward international contracts in the MENA (Middle East & North Africa) and Central Asian regions.
- **Cost Drivers:** Major costs include Erection, Construction, and Operation expenses (83.2% of revenue), site-specific overheads, and high finance costs related to non-fund-based limits (LCs/BGs) and restructured debt.
- **Industry Position:** The company is in a "turnaround" phase following a bank-led resolution plan, attempting to transition from domestic survival to international execution.

- **Expansion Plans:** Aggressive focus on the MENA region and Uzbekistan. The company acquired 75% of almoayyed (AEEIS) in Abu Dhabi (rebranded as SEPC Middle East Engineering & Construction LLC) to gain pre-qualification status for GCC infrastructure projects.
- **Acquisitions & Capacity:** The Abu Dhabi acquisition serves as a strategic vehicle for international bidding. Domestic capacity remains focused on liquidating the existing order book rather than physical asset expansion.
- **Segment Performance:** Engineering and Construction Contracts contributed 100% of the ₹561 Cr revenue in FY24.
- **Geographical Presence:** Significant shift from a purely Indian footprint to active project sites in Uzbekistan (₹2,700 Cr cement project) and the UAE, alongside domestic projects in states like Jharkhand.

2. Management commentary & outlook

- Management is executing a "MENA or Bust" strategy, pivoting away from the difficult domestic Indian regulatory environment toward high-value international EPC contracts.
- The Uzbekistan cement project (₹2,700 Cr) is the primary growth engine, representing a massive concentration risk but also a potential re-rating catalyst if executed successfully.
- Management maintains that the ₹308.71 Cr Deferred Tax Asset (DTA) is fully recoverable based on the new resolution plan and projected future profits from the international order book.
- The company is utilizing a "Rights Issue Treadmill" (three issues between FY24 and July 2024) to fund the working capital requirements of new large-scale projects.
- Strategy involves buying local "pre-qualification" status in the GCC through acquisitions to compete for large infrastructure tenders.
- Management acknowledges ₹69.59 Cr remains tied up in stalled domestic projects but expresses confidence in recovering dues from asset sales, even for customers in liquidation.
- The long-term vision is to transform SEPC into a global EPC player, reducing reliance on the Indian market where liquidity traps and regulatory delays have historically hindered growth.
- **Management Tone:** The tone is one of defiant optimism, characterized by "heartfelt gratitude" to investors and a focus on "unlocking promising opportunities." However, this optimism is sharply contrasted by persistent auditor qualifications regarding asset recoverability and internal control weaknesses. The verdict on management tone is **Cautiously Aggressive**, as they are making high-stakes geographical bets to outrun legacy financial issues while relying heavily on retail equity dilution.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2024	Mar 2023
Sales	561	379
Sales Growth %	48.07	14.99
Expenses	527	435
Material Cost %	0	0
Raw material cost	0	0
Change in inventory	0	0
Manufacturing Cost %	84	86
Employee Cost %	6	9
Other Cost %	5	20
Operating Profit	34	-56
OPM %	6	-15
Other Income	46	155
Exceptional items	0.05	134.79
Other income normal	46.18	20.03
Interest	52	67
Depreciation	5	6
Profit before tax	23	25
Tax %	0	119
Net Profit	23	-5
Profit from Associates	0	0
Exceptional items AT	0	105
Profit excl Excep	23	-109
Profit for PE	23	-109
Profit for EPS	23	-5
Profit Growth %	121	48
EPS (□)	0.12	-0.03
Dividend Payout %	0	0

Balance sheet (□Cr)

Line item	Mar 2024	Mar 2023
Equity Capital	1,410	1,322
Reserves	-200	-235
Borrowings	455	409
Long term Borrowings	298	266
Short term Borrowings	154	140
Lease Liabilities	3	4
Preference Capital	0	0
Other Borrowings	0	0
Other Liabilities	544	506
Non controlling int	2	2
Trade Payables	304	380
Advance from Customers	43	34
Other liability items	195	90
Total Liabilities	2,209	2,002
Fixed Assets	31	36
Land	2.42	2.42
Building	7.39	8.19
Plant Machinery	52.17	52.17
Equipments	0.12	0.12
Computers	0.99	0.94
Furniture n fittings	0.61	0.68
Vehicles	0.11	0.12
Intangible Assets	0.54	0.54
Other fixed assets	0.42	0.43
Gross Block	64.77	65.61
Accumulated Depreciation	33.80	29.37
CWIP	0	0
Investments	1	0
Other Assets	2,178	1,965
Inventories	0	0
Trade receivables	300	292
Receivables over 6m	240	304
Receivables under 6m	152	78
Prov for Doubtful	-93	-90
Cash Equivalents	61	50
Loans n Advances	137	149

Line item	Mar 2024	Mar 2023
Other asset items	1,680	1,474
Total Assets	2,209	2,002

Cash flow statement (□Cr)

Line item	Mar 2024	Mar 2023
Cash from Operating Activity	-121	21
Profit from operations	64	39
Receivables	8	83
Inventory	0	0
Payables	-60	45
Loans Advances	0	0
Other WC items	-131	-145
Working capital changes	-184	-17
Direct taxes	-2	-1
Cash from Investing Activity	-24	12
Fixed assets purchased	-0.05	-0.14
Fixed assets sold	0.05	2.92
Investments purchased	0	0
Investments sold	0	0
Interest received	1.37	3.13
Investment in group cos	0	0
Other investing items	-25.27	6.57
Cash from Financing Activity	130	-6
Proceeds from shares	100	350
Proceeds from borrowings	54	168
Repayment of borrowings	-4	-482
Interest paid fin	-19	-42
Dividends paid	0	0
Financial liabilities	-1	-1
Other financing items	0	0
Net Cash Flow	-15	27
Free Cash Flow	-121	24
CFO/OP	-355	-40

Key ratios

Line item	Mar 2024	Mar 2023
Debtor Days	195	281
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	195	281
Working Capital Days	523	621
ROCE %	5	-3

3.2 Financial analysis summary

- **Revenue** from operations grew by 48.07% to ₹561.00 Cr, entirely driven by Engineering and Construction Contracts, yet this growth is decoupled from liquidity as CFO plummeted to negative ₹121.00 Cr due to aggressive revenue recognition under the Percentage of Completion Method (POCM).
- The **Operating Profit** turned positive at ₹34.00 Cr (6% OPM) compared to a loss of ₹56.00 Cr in FY23, but this operational turnaround is overshadowed by Other Income of ₹46.00 Cr, which includes a non-cash gain of ₹26.07 Cr from fair valuing a related-party loan at 0.10% interest.
- **Net Profit** of ₹23.00 Cr is highly dependent on this Other Income; without the ₹26.07 Cr related-party gain and ₹15.00 Cr liabilities written back, the company would have reported a significant operational loss, highlighting poor earnings quality.
- **Working Capital** remains severely stressed with Working Capital Days at 523.00, as Other Assets (primarily unbilled Contract Assets) bloated to ₹2,178.00 Cr, representing nearly 4x the annual Revenue.
- **Contract Assets** include ₹919.76 Cr of unbilled revenue and ₹103.00 Cr of non-current assets, of which the auditor qualified ₹69.59 Cr as stalled projects with unverifiable recoverability.
- **Trade Receivables** of ₹300.00 Cr show an ageing concern with ₹240.00 Cr (80%) outstanding for over 6 months, further validated by the auditor's qualification on ₹5.75 Cr of receivables from stalled projects.
- **Trade Payables** decreased to ₹304.00 Cr, but ageing analysis reveals that ₹99.68 Cr (approx. 33%) has been outstanding for more than 3 years, signaling chronic liquidity constraints or long-standing disputes.
- **Total Debt** increased to ₹455.00 Cr, with Finance Cost of ₹52.00 Cr consuming 153% of Operating Profit, though the cash outflow for interest was lower at ₹19.00 Cr due to non-cash interest accretion on restructured debt.
- The debt structure includes **CCDs (₹130.69 Cr)** maturing in 2035, representing a massive future Equity dilution risk as they are compulsorily convertible.
- **Net Worth** of ₹1,210.00 Cr is artificially supported by a Deferred Tax Asset of ₹403.24 Cr, of which the auditor qualified ₹308.71 Cr (76%) due to lack of evidence for future taxable profits.
- **Cash from Financing Activity** of ₹130.00 Cr, driven by ₹100.00 Cr from share proceeds and a ₹40.00 Cr related-party loan, was the sole reason the company maintained a Cash Equivalent balance of ₹61.00 Cr despite the ₹121.00 Cr drain in CFO.
- **ROCE** improved to 5.00% from -3.00%, but this remains below the cost of debt, and ROE of 1.90% is negligible, reflecting poor capital efficiency and the heavy drag of accumulated Reserves of -₹200.00 Cr.
- Despite the **48% Revenue** jump, the order book declined from ₹1,109.00 Cr to ₹1,010.00 Cr, suggesting that current execution is outstripping new order inflows, posing a risk to future growth sustainability.
- **Other Liabilities** saw a massive 525% spike in "Other Payables" to ₹101.65 Cr, representing a buildup of unpaid employee and routine operational dues, acting as a forced source of Working Capital.

- **Other Assets** include ₹51.79 Cr in balances with government authorities (GST/VAT) and ₹132.25 Cr in advances to suppliers; the high level of advances suggests significant cash is locked up in the supply chain before project execution.
- **Other Expenses** normalized after a high FY23 provision, but "Consultancy charges" spiked 65.48% to ₹6.79 Cr, and high "Bank Charges" of ₹7.36 Cr reflect the expensive nature of maintaining credit facilities for a stressed entity.
- The dominant financial theme of the year is a **"Paper Recovery"** where headline revenue and profit growth are entirely undermined by a massive operating cash drain, aggressive unbilled revenue recognition, and a balance sheet heavily padded by unverified tax assets.

3.3 Contingent liabilities & commitments

- **Litigation:** The auditor highlights pending litigations and arbitration proceedings which could materially impact the consolidated financial position.
- **Tax Disputes:** The company carries a Deferred Tax Asset (DTA) of ₹403.24 Cr, of which ₹308.71 Cr is qualified by the auditor due to a lack of "convincing evidence" of future taxable profits.
- **Guarantees:** Security for debt includes a corporate guarantee from Mark AB LLC Dubai.
- **Capital Commitments:** The company recognizes provisions only when an outflow is "probable," but management's judgment on the probability of recovery for stalled projects (₹69.59 Cr) is more aggressive than the auditor's assessment.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; ₹23 Cr PAT vs -₹121 Cr CFO indicates non-cash accruals.	—	Forensic Alert: Profits are entirely "on paper" and not translating into cash flow.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — liquidity risk; receivables + contract assets total ₹1,489 Cr against ₹561 Cr sales.	—	Note 15.1: Contract assets include ₹246.10 Cr materials at site; auditor qualified ₹5.75 Cr receivables.
3	Revenue timing (unbilled / contract assets)	Revenue ↑ — aggressive recognition; incremental contract assets of ₹187 Cr exceed incremental revenue of ₹182 Cr.	—	Note 2.3: POCM method used; auditor qualified ₹69.59 Cr of stalled project contract assets.
4	Revenue from related parties %	Revenue ↑↓ — concentration risk; revenue from JVs exists while 49% of total revenue comes from 3 clients.	—	Note 33.3 & 46(C): High counterparty risk and continued revenue recognition from unincorporated JVs.
5	Inventory vs revenue growth	Neutral — construction model; inventory is zero as costs are captured in contract assets/work-in-progress.	—	Note 15.1: Project materials are classified under Contract Assets rather than traditional inventory.
6	Inventory valuation method change	Neutral — no change; accounting policy for construction contracts remains consistent with POCM standards.	—	Note 2.3: Revenue and contract costs recognized based on Percentage of Completion Method.
7	Exceptional items in operating profit	Profit ↑ — non-core boost; FY23 PAT was heavily inflated by ₹105 Cr exceptional gain.	—	P&L: FY23 profit was driven by Resolution Plan adjustments rather than core construction operations.
8	Depreciation rate vs useful life policy	Profit ↑ — low charge; depreciation is only 0.9% of sales despite heavy machinery-linked business.	—	Note 38: Depreciation and amortization expense decreased from ₹6.15 Cr to ₹5.32 Cr.
9	Provision reversals boosting PAT	Profit ↑ — non-cash gain; ₹15 Cr liability write-back and ₹26 Cr loan gain boost PAT.	—	Note 23.3: ₹26.07 Cr "gain on initial recognition" of related party loan credited to P&L.
10	Tax rate consistency + cash tax vs P&L tax	Profit ↑ — non-cash tax; 0% effective tax rate in FY24 vs 119% in FY23.	—	Note 2.4(b): Heavy reliance on DTA recognition to offset tax despite auditor qualifications.
11	CWIP age and stalling projects	Profit ↓ — impairment risk; auditor flagged ₹69.59 Cr of assets in stalled/regulatory-delayed projects.	—	Note 8.1 & 11.1: Auditor unable to verify recoverability of assets in stalled projects.
12	Deferred tax asset recognition adequacy	Profit ↑ — equity padding; ₹308 Cr of DTA is unverified by auditors, representing 25% of Net Worth.	—	Auditor's Basis for Qualified Opinion: No evidence of future taxable profits to utilize these assets.
13	RPT quantum and trend	Neutral — liquidity support; related party provided ₹40 Cr loan at 0.1% interest to fund operations.	—	Note 23.3: Loan from Mark AB Capital is the primary liquidity source given negative CFO.
14	Dividend paid vs FCF adequacy	Neutral — no outflows; company is in a recovery phase and not paying dividends.	—	Cash Flow: All available capital is being consumed by working capital and debt servicing.
15	Audit Trail (Rule 11(g))	Neutral — High risk of undetected manual overrides in financial records.	—	Auditor's Report: Company lacked enabled audit trail throughout the year.
16	Insider Trading Compliance	Neutral — Weak compliance culture; contra trade by designated person.	—	Secretarial Audit: Designated person traded during closed window without pre-clearance.

#	Check	Impact	Status	Notes detail
17	Forced Working Capital (Other Payables)	Profit ↑ — Liquidity strain; 525% spike in routine payables.	—	Note 28A: Buildup of unpaid employee and routine operational dues.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** ***Qualified Opinion***. * **Key Audit Matters (KAMs):** * ***Provisioning for Expected Credit Loss (ECL):*** The auditor flagged the complexity of management judgment in estimating future cash flows for overdue trade receivables and contract assets, particularly given the high volume of long-outstanding balances. * ***Recoverability of Deferred Tax Assets (DTA):*** Auditor expressed concern over the recognition of DTA without "convincing evidence" of future taxable profits. Management's response cites a positive outlook based on the new resolution plan and order book. * **Emphasis of Matter:** The auditor highlighted pending litigations and arbitration proceedings which could impact the consolidated financial position. * **Material Weaknesses:** * ***Audit Trail (Rule 11(g)):*** The company's accounting software lacked an enabled "audit trail" (edit log) facility at the database level throughout the year. No service auditor report was available for third-party payroll software. * ***Asset Recoverability:*** Auditor was unable to obtain sufficient evidence for the recoverability of □308.71 Cr in DTA and □75.34 Cr in stalled project assets. * **Auditor Fees:** Total fees paid to Statutory Auditors: 0.49 Cr. This represents 0.08% of revenue, which is low for a company with complex debt restructuring and international subsidiaries.

B. Related Party Transactions

Party	Relationship	Nature	Amount (Cr)	Concern
Mark AB Capital Investment India	Promoter Group	Unsecured Loan Received	40.00 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	16.76 Cr	***Stagnant Balance***
Shriram EPC FZE, Sharjah	Subsidiary	Outstanding Receivables	15.33 Cr	***Recoverability Risk***
KMP Compensation	Management	Remuneration	1.62 Cr	Neutral

- **RPT Risk Checks:**
  - % of Revenue: 7.13% (RPT Loans/Revenue).
  - % of CFO: N/M (CFO is negative 121.00 Cr).
  - Trend vs Prior Year: Increasing (Promoter loans rose from 9.00 Cr to 40.00 Cr).
- **Red Flag Filters:**
  - ***Preferential Loans:*** The promoter loan of 40.00 Cr carries a nominal interest rate of 0.10%. This resulted in a non-cash "gain on initial recognition" of 26.07 Cr, which artificially inflated Other Income and PBT.
  - ***Stagnant JV Dues:*** Receivables from Mokul Shriram EPC JV (16.76 Cr) remain outstanding, contributing to the auditor's qualification on stalled projects.

C. Shareholding * **Promoters:** 26.97% (Mar 2024) vs 29.25% (Mar 2023) * **FIIs:** 0.11% (Mar 2024) vs 0.19% (Mar 2023) * **DIIs:** 25.04% (Mar 2024) vs 40.79% (Mar 2023) * **Public:** 47.88% (Mar 2024) vs 29.77% (Mar 2023) * **Pledged Shares:** No explicit pledge; however, 25.16% is held by Bankers following debt-to-equity conversion.

D. Board Composition + KMP Compensation * **Total Directors:** 6 | **Independent %:** 66.67% | **Women Directors:** 1 (Ms. Gayathri Sundaram). * **KMP Compensation:** * **N K Suryanarayanan (MD & CEO):** 0.80 Cr (FY24) vs 0.43 Cr (FY23) | **YoY Growth: 86.05%**. * **R S Chandrasekharan (CFO):** 0.54 Cr (FY24) vs 0.49 Cr

(FY23) | **YoY Growth: 10.20%**. * **T Sriraman (CS):** 0.28 Cr (FY24) vs 0.26 Cr (FY23) | **YoY Growth: 7.69%**. * **Analysis:** MD pay growth (86%) reflects a full year of service vs partial term in FY23. Aggregate KMP pay (1.62 Cr) is 4.7% of EBITDA. No family relations between KMPs or Directors were disclosed.

F. Capital Allocation & Capex

Action	FY current (Cr)	FY prior (Cr)	% of CFO	Signal
Equity Issuance	100.00 Cr	350.00 Cr	N/M	**Positive (Lifeline)**
Net Debt Change	46.00 Cr	-572.00 Cr	N/M	—
Working Capital Investment	184.00 Cr	17.00 Cr	N/M	***Aggressive Burn***
Interest Payments	19.00 Cr	42.00 Cr	N/M	—
Capex	0.05 Cr	0.14 Cr	N/M	—
Impairments / Write-offs	0.00 Cr	107.89 Cr	N/M	**Stabilizing**

Capex analytical notes: * **CFO Coverage of Capex:** N/M (CFO is negative). * **Nature of Capex:** Purely maintenance; growth capex is non-existent (**0.05 Cr**). * **Capex Deployment Efficiency:** Revenue grew 48.07% despite zero growth capex, signaling growth is driven by liquidating the existing order book. * **Key Takeaways: The lack of reinvestment (0.05 Cr capex on a 561.00 Cr revenue base) suggests the company is in a "survival" mode, potentially compromising long-term execution capability.**

H. Risks * ***DTA Impairment:*** 308.71 Cr of DTA lacks "convincing evidence" of recovery. **Impact: 25% erosion of Net Worth** if written off. * ***Stalled Projects:*** 75.34 Cr tied up in projects with no progress. **Impact: Direct liquidity loss; potential for 100% write-down.** * ***Negative CFO:*** Divergence between PAT (23 Cr) and CFO (-121 Cr). **Impact: Inability to service debt without constant equity dilution.** * ***Audit Trail:*** No edit log enabled at database level. **Impact: High risk of undetected manual overrides.** * ***Customer Concentration:*** Top 3 customers contribute 49% of revenue. **Impact: Single contract delay triggers liquidity crisis.**

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	2	→	Order book down to □1,010 Cr; 49% revenue concentration.	Limited diversification and shrinking domestic core with high execution risk.
Financial health	1	→	D/E 0.38x (distorted); CFO -□121 Cr; Coverage < 1x (cash basis).	Negative CFO and reliance on repeated equity dilution for survival.
Earnings quality	1	→	CFO < PAT; Qualified DTA = 25% of NW; Unbilled Revenue > 100% of Rev growth.	Profits are non-cash and heavily reliant on aggressive accounting and RPT gains.
Management & governance	2	↓	Insider trading penalty; Audit trail missing; Qualified opinion.	Governance gaps and compliance lapses overshadow promoter support.
Capital allocation & earnings visibility	2	→	Capex □0.05 Cr; ROCE 5% < Cost of Debt; Order book declining.	Value-destructive allocation with growth funded by dilution rather than operations.

Business positives (for this company this year) * **Revenue Growth:** Operations grew by **48.07% to □561 Cr**, showing improved execution of the existing order book. * **Promoter Support:** Received a **□40 Cr unsecured loan** from Mark AB Capital at a nominal 0.10% interest rate. * **International Pivot:** Secured a **□2,700 Cr**

($325M) cement project in Uzbekistan, providing a massive potential revenue runway. * **Capital Infusion:** Successfully raised ₹**100 Cr** through rights issues to stabilize the balance sheet.

Business negatives / concerns (for this company this year) * **Cash Flow Drain:** Reported a massive negative **CFO of -₹121 Cr** despite reporting a PAT of ₹23 Cr. * **Auditor Qualification:** Auditors qualified ₹**308.71 Cr of DTA** and ₹75.34 Cr of stalled assets, totaling ~32% of Net Worth. * **Aggressive Revenue Recognition:** Incremental **Contract Assets (₹187 Cr)** exceeded incremental Revenue (₹182 Cr). * **Governance Red Flag:** A ₹**10 Lakh penalty** was imposed for insider trading violations by a designated person. * **Liquidity Stress: Other Payables (employee/routine dues)** spiked 525% to ₹101.65 Cr, indicating forced working capital. * **Order Book Decline:** Total order book fell from ₹**1,109 Cr to ₹1,010 Cr**, suggesting poor domestic replenishment.

Overall scorecard summary SEPC is in a precarious state where a "paper recovery" in revenue and profitability is entirely dependent on promoter-funded lifelines and aggressive accounting treatments. The company's financial health is weak, with negative operating cash flows and a net worth heavily padded by unverified tax assets. Governance remains a concern due to compliance lapses and the lack of an audit trail, while capital allocation is focused on survival rather than sustainable reinvestment.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 5/10 — Governance Rating: 2

Part c: investor verdict

Thesis: SEPC is a high-risk speculative turnaround betting on an international pivot to outrun a hollowed-out domestic balance sheet. **Overall stance:** Watch **Rationale:** Operational turnaround is not yet backed by cash flows, and significant auditor qualifications pose a risk of massive equity write-downs. **Re-evaluate when:** CFO becomes positive AND the Uzbekistan project achieves 25% certified completion. **BULL CASE:** Successful execution of the ₹2,700 Cr Uzbekistan project leads to a massive re-rating and cash infusion. **BEAR CASE:** Auditor forces a write-down of the ₹308 Cr DTA, wiping out 25% of equity and triggering a technical default. **Key monitorable:** Unbilled Contract Assets: ₹920 Cr → Watch for any further growth relative to revenue.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status (FY23)	Summary b status (FY24)	Forensic takeaway
Margin Trajectory	Operating Margin at -15% (₹56 Cr loss).	Operating Margin at +6% (₹34 Cr profit).	Core operations have technically turned positive, but the turnaround is undermined by a total lack of cash backing.
Cash Flow Generation	Positive CFO of ₹21 Cr (driven by low activity).	Negative CFO of -₹121 Cr (massive operational drain).	The company is experiencing a "paper recovery" where revenue growth is consuming rather than generating cash.
Capital Allocation	Focused on debt-to-equity conversion and restructuring.	Focused on funding working capital via a "rights issue treadmill."	Capital strategy has shifted from balance sheet repair to using retail equity to fund aggressive unbilled revenue growth.
Management Tone	Survivalist; focused on domestic resolution.	Cautiously Aggressive; "MENA or Bust" strategy.	Management is attempting to outrun legacy domestic failures by taking on massive geographical concentration risk in Uzbekistan.
Governance Risk	Standard qualified opinion on asset recoverability.	Escalated risk with audit trail failures and insider trading penalties.	Internal controls are deteriorating even as the company attempts a commercial pivot.
Working Capital Source	Promoter equity infusion (₹350 Cr).	Spike in "Other Payables" (₹101 Cr) and RPT loans.	The company is increasingly relying on forced credit from employees/vendors and low-interest promoter loans to stay liquid.

7.2 Persistent patterns

- **Auditor Qualifications on Net Worth:** In both periods, the auditor qualified the recoverability of the **Deferred Tax Asset (₹308-403 Cr) and stalled projects (₹70-79 Cr)**, suggesting that roughly 25-35% of the reported Net Worth is potentially non-existent.
- **Chronic Capex Neglect:** Reinvestment in physical assets remains near zero (₹0.14 Cr vs ₹0.05 Cr), indicating the company is **liquidating its operational capacity** to survive.
- **Aggressive Revenue Recognition:** Contract assets (unbilled revenue) consistently exceed annual revenue (2x to 4x), signaling a **permanent decoupling of accounting profits from cash collection.**
- **Promoter Lifelines:** The business remains **incapable of self-sustenance**, requiring continuous promoter intervention via equity (FY23) or sub-market interest loans (FY24) to meet obligations.
- **Legacy Receivable Stagnation:** A massive portion of the balance sheet (₹162 Cr in FY23; 80% of receivables in FY24) remains **aged and illiquid**, representing "dead money" that management refuses to impair.
- **Qualified Audit Opinions:** The presence of a **Qualified Opinion** across both years highlights a sustained inability to provide "convincing evidence" for the carrying value of major balance sheet items.