

Press Release

**IDL Explosives Limited**

November 04, 2019

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Fund Based Facilities- Cash Credit	10.00	IVR A/Stable Outlook (IVR Single A with Stable Outlook)	Revised from IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
2.	Non-Fund Based Facilities- Bank Guarantee/Letter of Credit	184.40 (Including Proposed Limit of 5 Crore) <sup>#</sup>	IVR A1 (IVR A One)	Revised from IVR A2+ (IVR A Two Plus)
	<b>Total</b>	<b>194.40</b>		

<sup>#</sup>Enhanced from Rs. 134.40 Crore

**Details of facilities are in Annexure 1**

**Rating Rationale**

The ratings take into account the strong promoter group and experienced management team, long track record of the holding company, demonstrated support from the Hinduja group, presence in a niche segment along with good order book position. The ratings further derive strength from the improved operating cycle and strong debt protection metrics and coverage indicators. The rating, however, is constrained by moderate profitability, customer concentration risk, vulnerability of profitability to fluctuations in raw material price and concentration towards mining sector.

**Key Rating Sensitivities:**

- **Upward Rating Factor**-Improvement in entity's scale of operations, adequate cash flow generation and improvement in debt coverage metrics & overall gearing of the Company.
- **Downward Rating Factor**-Any adverse change in the regulatory and environmental framework

**Detailed Description of Key Rating Drivers**

**Key Rating Strengths**

***Long Track Record of the Holding Company (GOCL)***

IDL is a 100% subsidiary of GOCL. GOCL was incorporated in 1961 for manufacturing industrial explosives, reflecting a track record of more than 5 decades. In the past, the

company had forayed into various segments like lubricants, mining, real estate, wind energy, food chemicals, pharmaceuticals, etc. through various joint ventures/ subsidiaries. Currently, like IDL, it has its presence mainly in energetic & explosives with real estate and mining segments constituting a small proportion of revenue at present.

### ***Strong Promoter Group and experienced Management***

The company is a part of the Hinduja Group which came into existence in 1918. It is one of the largest diversified groups having presence in around 30 countries in sectors encompassing automotive), oil & gas), banking & finance), power), IT & BPO, media and healthcare. The day-to-day affairs of the company are currently looked after by Mr. Subhas Pramanik, Managing Director of IDL as well as GOCL. He is well assisted by a team of experienced management professionals whose experience in running various businesses is a key strength for IDL.

### ***Demonstrated Support from Hinduja Group***

The Hinduja group has provided timely and adequate financial support to IDL at various points in time. In FY18, the holding company, GOCL had infused equity in the company to the tune of Rs.19.06 Crore. [Equity - INR 1.82 Crore & Premium - INR 17.24 Crore (@ Rs.95 per share)].

### ***Niche Product segment***

IDL operates in a niche product segment wherein it manufactures cartridge, Bulk explosives and clad products which are mainly used in the mining sector. Also, it is in the process of developing new products which will find application in the defence, space and metal cladding, for which the company already has some small orders in place.

### ***Strong Debt metrics & Coverage indicators***

The overall gearing ratio of the Company improved from 2.10x in FY18 to 1.47x in FY19. The long term debt to equity ratio stood strong & improved from 0.95x in FY18 to 0.75x in FY19. The Total outside liabilities to Tangible Net Worth of the Company has improved from 4.00x in FY18 to 3.23x in FY19. The interest coverage ratio is strong & further improved from 3.63x in FY18 to 4.80x in FY19.

### ***Improved Operating Cycle***

The Average Operating Cycle of the Company has improved from 62 days in FY18 to 46 days in FY19, mainly on account of reduction in inventory days & an increase in the payment period, reflecting lower funds being blocked in working capital.

## ***Good Order Book position***

The orders on hand as on date aggregate to INR 678 Crore; of which Coal India Limited and its subsidiaries contributed INR 531 Crore and Singareni Collarries Company Limited contributed INR 77 Crore. These orders on hand of INR 678 Crore constitute 148% of FY19 turnover.

## ***Government opportunities***

The activity in the defence sector is increasing, especially with the stabilization of the 'Make in India' projects and initiatives. The niche areas which are catered to by the Company's Special Product and Metal Cladding Groups are coming into prominence and they expect to develop more sophisticated products for these niche markets.

## **Key Rating Weaknesses**

### ***Moderate profitability***

Over a period of last 3 years, the Company's total income from operations has been at an average of INR ~430 Crore. However, the operating income of the Company has increased from INR ~414 Crore in FY18 to INR ~457 Crore in FY19, indicating a growth rate of 10%. The EBITDA margin has almost remained same at 7.87% in FY18 & at 8.68% in FY19.

### ***Customer Concentration risk***

The Company's top five customers accounted for around 52% of the total revenue, reflecting customer concentration risk for the company.

### ***Vulnerability of profitability to fluctuations in raw material price***

The basic raw materials required by the company are chemicals, metals etc. the prices of which are volatile in nature. Hence, the profitability of IDL is exposed to variations in raw material prices.

### ***Concentration towards mining sector***

The products manufactured by the company are mainly used in the mining sector, which is highly regulated. Any adverse changes in the regulatory and environmental framework are the key rating sensitivities.

## **Analytical Approach & Applicable Criteria:**

- Standalone
- Parent/ Group support
- Rating Methodology for Manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity**

The Company has been earning a comfortable level of GCA for the last few years and the same is expected to increase further with increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. As at March 31, 2019, the company had cash & balance of INR 14.86 Crore. The utilization of working capital limits remained at 45% during the 12 months ended March 31, 2019, leading to a comfortable liquidity cushion.

### **About the company**

IDL Explosives Limited (IDL) was incorporated in 2010. The company is a part of the 'Hinduja Group' which is one of the largest diversified group in the country spanning various sectors of the economy. The company is a wholly owned subsidiary of GOCL Corporation Ltd. (GOCL, rated IVR A-/Stable/IVR A2+ in April 2018).

### **Financials (Standalone)**

**(Rs. Crore)**

<b>For the year ended / As on</b>	<b>31-Mar-18 (A)</b>	<b>31-Mar-19 (A)</b>
Total Operating Income	413.65	457.45
EBITDA	32.57	39.73
PAT	13.88	18.79
Total Debt	84.06	71.46
Tangible Net worth	40.11	48.51
EBITDA Margin (%)	7.87	8.68
PAT Margin (%)	3.34	4.08
Overall Gearing ratio (x)	2.10	1.47
Adjusted Gearing Ratio (x)	0.75	0.54

\* Classification as per Infomerics' standards

**Details of Non Cooperation with any other CRA: N.A.**

**Any other information: N.A**

**Rating History for last three years:**

<b>Name of Instrument/ Facilities</b>	<b>Current Rating (Year 2019-20)</b>			<b>Rating History for the past 3 years</b>		
	<b>Type</b>	<b>Amount outstanding (Rs. crore)</b>	<b>Rating</b>	<b>Rating assigned in 2018-19</b>	<b>Rating assigned in 2017-18</b>	<b>Rating assigned in 2016-17</b>

Fund Based Facilities	Cash Credit (CC)	10.0	IVR A/Stable Outlook	IVR A-/Stable Outlook	--	--
Non-Fund Based Facilities	Bank Guarantee/Letter of Credit	184.40 (Including Proposed Limit of 5 Crore) <sup>#</sup>	IVR A1	IVR A2+	--	--
	<b>Total</b>	<b>194.40</b>				

<sup>#</sup>Enhanced from Rs. 134.40 Crore

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

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## About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

## Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Long Term Fund Based (CC)	--	--	--	10.00	IVR A/Stable Outlook
2	Short Term (LC/BG)	--	--	--	184.40 (Including Proposed Limit of 5 Crore) <sup>#</sup>	IVR A1
<b>Total</b>					<b>194.40</b>	

<sup>#</sup>Enhanced from Rs. 134.40 Crore