Press Release

SBL Energy Limited
March 07, 2024

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	51.38	IVR BBB+ Under Rating Watch with developing implications (IVR Triple B Plus Under Rating Watch with developing implications)	Reaffirmed and placed on Rating watch with developing implications	Simple
Short-Term Bank Facilities	77.00	IVR A2 Under Rating Watch with developing implications (IVR Single A Two Under Rating Watch with developing implications)	Reaffirmed and placed on Rating watch with developing implications	Simple
Total	**128.38 (Rupees one hundred and twenty-eight crore and thirty eight lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of SBL energy Limited (SEL) is placed on rating watch with developing implications following an announcement made by SEL that the company has planning to expand its manufacturing capacity in India as well as launch new products and has raised growth capital of Rs.325 crore from renowned investors like Synergy Capital, India SME Investments and Mr. Mukul Mahavir Agrawal. Complete clarity on the final expansion plan will emerge in due course of time and Infomerics Ratings will continue to monitor the developments and assess the company's credit and liquidity profile. Infomerics Ratings will take a view on the ratings once the exact implications of the above on the credit risk profile of the company is clear.

The ratings continue to be driven by healthy improvement in its scale of operations in FY23 with rise in profit levels albeit moderation in profit margins along with comfortable capital structure and healthy debt protection metrics of the company. Further, the ratings also factor in SBL's long track record of operation under experienced promoters, established market position and high entry barriers in the explosives business, thereby limiting competition.

However, these rating strengths continues to remain partially offset by vulnerability of profitability to raw material price fluctuations, exposure to regulatory risks as the entire explosives industry are heavily regulated by the government, exposure to customer concentration risk and large working capital requirements.

<u>Key Rating Sensitivities:</u>

Upward factors

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity
- Sustenance of the capital structure with improvement in debt protection metrics on a sustained basis

Downward Factors

- Moderation in operating income and/or moderation in cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by stretch in receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Any unplanned capex and /or deterioration in overall gearing to over 1x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Long track record of operation under experienced promoters**

Incorporated in 2002, SEL has a long and established presence in the industrial explosive industry. Further, Mr Choudhary, the promoter of SEL has overall experience of more than three decades in the industry. Moreover, the promoters of the company along with well supported qualified professionals manages day to day operations of the company effectively.

- **Established market position**

SEL is among the top players in a highly regulated domestic explosives and detonating fuse industry, backed by its longstanding presence and extensive experience of the promoters. Business remains supported by high entry barriers and strong relationships with reputed clients such as Coal India Ltd (CIL).

- **Healthy improvement in scale of operation in FY23**

SBL's topline has witnessed a significant y-o-y growth of 90.49% in its total operating income to Rs.489.41 crore in FY23 against Rs.256.92 crore in FY22 mainly driven by higher demand of its manufactured products and increase in average selling price of industrial Explosives and non-electronic detonator during the year attributable to high demand from mining sector with resumption of mining activities post covid period. Backed by steady growth in its TOI coupled with rise in average sales realization, the absolute EBITDA has improved, but with increase in cost of production, the EBITDA margin has moderated to 11.99% in FY23 (provisional) from 17.03% in FY22. With the increase in depreciation and finance charges the PAT margin has also moderated to 6.66% in FY23 against 9.65% in FY22.

- **Comfortable capital structure and healthy debt protection metrics**

The capital structure of the company continued to remain comfortable, marked by its comfortable leverage ratios. The overall gearing ratio has remained comfortable at 0.67x (0.64x as on March 31,2022) as on March 31, 2023. Moreover, Total indebtedness of the company marked by TOL/TNW improved and remained comfortable at 1.41x as on March 31, 2023. (1.69x as on March 31,2022). The debt protection parameters of the company remained comfortable over the years driven by its healthy operating profit level and comfortable gross cash accruals. The interest coverage ratio and the Total debt to GCA though moderated but remained comfortable at 6.52x in FY23 and 1.57 years as on March 31,2023.

- **High entry barriers in the explosives business, thereby limiting competition**

The industrial explosives industry in India is highly regulated by the Government, given the nature of the products, leading to high entry barriers and restrictions on the entry of new players and, thereby, any competition. This has benefited existing players, with the industry being dominated by the top 7-8 players at present.

Key Rating Weaknesses:

- **Vulnerability of profitability to raw materials price fluctuations**

The company's major raw materials are pentaerythritol tetranitrate (PETN), ammonium nitrate, aluminium strips, copper wire, galvanised iron (GI) wires, PVC compound, etc. As most of its raw materials are metals and derivatives of oil and gas, the profitability remains vulnerable to adverse movement in raw material prices.

- **Regulatory risks as the entire explosives industry are heavily regulated by the Government**

The explosives industry is heavily regulated, exposing the company's operations to regulatory risks. The nature of the products and their being prone to abuse under the existing atmosphere of violence not only in India, but globally, makes the industry highly sensitive and vulnerable. The Department of Explosives, Government of India, located in Nagpur, Maharashtra, is the licensing authority for overseeing the safety of hazardous materials produced and marketed by the industry. Further, given the nature of the products and their hazardous raw materials, the vulnerability to accidents remains high, despite compliance with all mandated safety requirements.

- **Large working capital requirement**

The operations of the company remained working capital intensive over the years marked by its high gross current asset days of about 141 days in FY22 mainly due to its high average collection period. Realisation from long pending debtors and movement if working capital cycle is a key rating monitorable. The average utilisation of its cash credit limit remained at ~75% in the past 12 months ending April 2023 indicating a moderate liquidity buffer.

- **Exposure to customer concentration risk**

The coal mining sector accounts for bulk of the revenue of the explosives industry, with CIL and its subsidiaries directly or indirectly contributing a major portion. CIL has a near-monopolistic stature and dominates the coal mining industry. It typically follows the tender-based route in placing orders, which encourages price-based competition among players.

Analytical Approach: Standalone

Applicable Criteria:

Criteria for assigning Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Policy of default recognition

Criteria on complexity

Liquidity: Adequate

The liquidity of the company is expected to remain adequate on the back of its expected adequate cash flows. SEL had generated adequate cash accrual of around Rs.39.89 Cr in FY23 as against its debt repayment obligation of around Rs.6.04 crore. Further, SEL is also expected to generate steady cash accrual in the range of ~Rs.49.94 – Rs. 60.02 crore over the near medium term against its repayment obligation in the range of~Rs.7.15 – Rs. 8.03 crore during FY24-FY26. In addition, on the back of its comfortable capital structure, the company has adequate gearing headroom. Moreover, the average utilisation of its cash credit limit remained at ~75% in the past 12 months ended April 2023 indicates a satisfactory liquidity buffer.

About the Company

SBL Energy Limited (SEL) (formerly, Amin Explosives Pvt Ltd) was incorporated in 2002 and manufactures commercial explosives and explosion-related accessories like high explosives, bulk explosives, detonators, detonating fuse, safety fuse, PETN etc. SEL, based in Nagpur, was taken over by one Choudhary family in fiscal 2016.

Financials of SEL (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	**Provisional**
Total Income	256.92	489.41
EBITDA	43.75	58.69
PAT	24.82	32.67
Total Debt	39.30	62.57
Tangible Net worth	61.39	94.04
EBITDA Margin (%)	17.03	11.99
PAT Margin (%)	9.65	6.66
Overall Gearing Ratio (x)	0.64	0.67
Interest Coverage	8.21	6.52

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years: **(Rs. Crore)**

Sr. No.	Name of Instrument / Facilities	Current Rating (Year 2023-24)				Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Cr.)	Rating		Date(s) & Rating(s) assigned in 2022-23 (Aug 08, 2022)	Date(s) & Rating(s) assigned in 2022-23 (July 20, 2022)	Date(s) & Rating(s) assigned in 2021-22 (Sep 22, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	26.38	IVR BBB+; RWDI	IVR BBB+; Stable (June 29, 2023)	IVR BBB; Stable	IVR BBB; Stable	IVR BBB-; Stable	-
2.	Cash Credit	Long Term	25.00	IVR BBB+; RWDI	IVR BBB+; Stable (June 29, 2023)	IVR BBB; Stable	IVR BBB; Stable	IVR BBB-; Stable	-
3.	Letter of Credit	Short Term	77.00	IVR A2; RWDI	IVR A2 (June 29, 2023)	IVR A3+	IVR A3+	IVR A3	-

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About Infomerics Ratings:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary. For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits – Term Loan	-	-	Nov 2027	26.38	IVR BBB+; RWDI
Long Term Fund Based Limits – Cash Credit	-	-	-	25.00	IVR BBB+; RWDI
Short Term Non-Fund Based Limits – Letter of Credit	-	-	-	77.00	IVR A2; RWDI

Annexure 2: Facility wise lender details: https://www.infomerics.com/admin/prfiles/Len-SEL-07Mar24.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.