Press Release

IDL Explosives Limited

May 24, 2023

Ratings:

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund-Based Facilities	15.00	IVR BBB+ / Stable Outlook (IVR Triple B Plus with Stable Outlook)	Revised	Simple
Short Term Non-Fund Based Facilities	342.40	IVR A2 (IVR A Two)	Revised	Simple
Total	**357.40**	**(Rupees Three Hundred Fifty-Seven Crore and Forty Lakh Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of IDL Explosives Limited is on account of decline in profitability margins in FY22 and 9MFY23 and deterioration in capital structure and debt coverage indicators FY22 with expectation of subdued performance in FY23.

The ratings continue to factor in long track record of the holding company (GOCL), strong promoter group and experienced management along with continued support from Hinduja Group, niche product segment, moderate operating cycle, good order book position and government opportunities.

However, the ratings strengths are partially offset by decline in profitability margins, deterioration in capital structure and debt coverage indicators, customer concentration risk, vulnerability of profitability to fluctuations in raw material price and concentration towards mining sector.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the revenue & EBITDA margin while improving the debt protection metrics.

Downward Factors

- Any further decline in revenue and/or EBITDA margin leading to a decline in debt protection metrics.

List of Key Rating Drivers with Detailed Description

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; continued support from Hinduja group

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. Pankaj Kumar, 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.

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)] and Rs. 45 Crore was provided in FY22 in the form of ICDs by GOCL.

Niche Product segment

IDL operates in a niche product segment wherein it manufactures cartridge, Bulk explosives and cladded 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.

Moderate Operating Cycle

The Average Operating Cycle of the Company has increased from 66 days in FY21 to 70 days in FY22 while gross current asset days has deteriorated from 121 days in FY21 to 283 days in FY22 mainly driven by increase in inventory period from 50 days in FY21 to 88 days in FY22.

Good Order Book position

The orders on hand as on 10-Apr-2023 aggregates to Rs. 563.00 Crore; of which Coal India Limited and its subsidiaries contributed Rs. 252.00 Crore and Singareni Collieries Company Limited contributed Rs. 218.00 Crore. These orders on hand, as per management, are to be executed in next 6 to 8 months.

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.

B. Key Rating Weaknesses

Decline in Profitability Margins

TOI of IDL Explosives Limited (IDL) has increased Y-o-Y by 17% in FY22 i.e. from Rs. 339.28 Crore in FY21 to Rs. 395.38 Crore in FY22. This increased because of increase in average sales realisation of its key products in FY22 as against FY21.

The profitability margins of the company marked by EBITDA margin declined by 241bps in FY22 i.e. from 4.15% in FY21 to 1.75% in FY22. The operating margins declined due to increase in raw material cost, power and fuel cost. PAT margin declined by 113bps in FY22 i.e. from 1.34% in FY21 to 0.21% in FY22. This declined in-line with EBITDA margin.

Gross Cash Accrual of the company decreased Y-o-Y by 42% i.e. from Rs. 9.76 Crore in FY21 to Rs. 5.65 Crore in FY22. This decreased because of decline in overall profitability. The company has reported operating loss and Net Loss of Rs.20.56 crore and Rs. 6.19 crore respectively on total operating income of Rs. 577.11 crore in 9MFY23 as against operating loss and PAT of Rs.0.65 crore and Rs. 0.84 crore respectively on total operating income of Rs. 290.53 crore in 9MFY22.

Deterioration in capital structure and debt coverage indicators

The Overall Gearing Ratio (quasi equity) of the company deteriorated from 0.36 times as on 31-Mar-2021 to 1.55 times as on 31-Mar-2022 on account of increase in total debt to Rs. 141.80 Crore (including ICDs of Rs. 45.00 Cr.) as on 31-Mar-2022 as against Rs. 32.84 Crore as on 31-Mar-2021.

The total indebtedness of the company as reflected by TOL/TNW (quasi equity) is 2.97x as on 31-Mar-22 (0.88x as on 31-Mar-21). This deteriorated on account of increase in total term liabilities.

The debt protection metrics also deteriorated in FY22. DSCR of the company in FY22 is 1.38x (FY21: 1.50x). ISCR of the company is 1.80x in FY22 (FY21: 2.63x). Total Debt to GCA deteriorated to 25.09 years in FY22 (FY21: 3.36).

Tangible Net worth (quasi equity) of the company increased from Rs. 90.08 Crore as on 31-Mar-21 to Rs. 91.49 Crore as on 31-Mar-22. This increased due to addition of subordinated unsecured loan amount in FY22 and accretion of profits to reserve.

Customer Concentration risk

The Company's top four customers accounted for around 70% of the total sales made in FY22, reflecting high 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: Standalone

Applicable Criteria:

- Rating Methodology for Manufacturing Facilities
- Financial Ratios & Interpretation (Non- Financial Sector)
- Criteria of assigning Rating Outlook

Liquidity – Adequate

The company's liquidity is adequate as it expects sufficient cushion in its cash accrual vis-à-vis debt repayment for the next 2 years (FY24 - FY25) as the company does not have any long-term debt repayments from FY24 onwards. The company`s operations were supported by the promoter group in the past. The Current Ratio of the company stood at 1.15x as on March 31, 2022. The fund based average utilisation of the company for last 12 months ending Mar`23 is ~8.00% and the non-fund based average utilisation for last 12 months ending Mar`23 is ~84%. The unencumbered cash and bank balance as on 31 March 2022 is Rs. 0.37 Crore. The cash operating cycle of the company is of 70 days in FY22 (FY21: 66 days).

About the Company

IDL Explosives Limited (IEL) 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 Limited (GOCL). The Company is located at Hyderabad (Andhra Pradesh). At the time of inception of this company, the bulk explosives division of GOCL was demerged and IEL was formed. At present, the company is engaged in the manufacture of bulk explosive products which are used in the mining & infrastructure segment. Also, the company manufactures explosive bonded metal clads and special devices for defence and space applications, however on a small scale.

Financials (Standalone):

(Rs. Crore)

For the year ended*/ As on	2021 Audited	2022 Audited
Total Operating Income	339.28	395.38
EBITDA	14.09	6.91
PAT	4.61	0.84
Total Debt	32.84	141.80
Tangible Net Worth	60.44	61.39
EBITDA Margin (%)	4.15	1.75
PAT Margin (%)	1.88	0.30
Overall Gearing Ratio (x)	1.34	0.21

**Classification as per Infomerics` standards*

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Feb 25, 2022)	Date(s) & Rating(s) assigned in 2020-21 (Nov 27, 2020)	Date(s) & Rating(s) assigned in 2019-20 (Nov 04, 2019)
1.	Cash Credit	Long Term	15.00	IVR BBB+/ Stable	IVR A-/ Stable	IVR A /CWDI*	IVR A /Stable
3.	LCs/BGs/ CEL Limit	Short Term	342.40	IVR A2	IVR A2+	IVR A1 /CWDI*	IVR A1

**CWDI: Credit Watch with Developing Implications*

Name and Contact Details of the Rating Analyst:

Name: Manas Mehta Tel: (011) 45579024 Email: manas.mehta@infomerics.com	Name: Harsh Raj Sankhla Tel: (011) 45579024 Email: harshraj.sankhla@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	15.00	IVR BBB+/ Stable
LCs/BGs/CEL Limit	-	-	-	342.40	IVR A2

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-IDLExplosives-may23.pdf

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.