Press Release

IDL Explosives Limited [IDL]

November 27, 2020

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1	Long Term Fund based – Cash Credit	10.00	IVR A/ Credit Watch with Developing Implications; [IVR Single A Credit Watch with Developing Implications]	Rating Re-affirmed with Outlook revised to Credit Watch with Developing Implications
2	Short Term Non-Fund based – Bank Guarantee/ Letter of Credit/ CEL limit	184.40*	IVR A1/ Credit Watch with Developing Implications [IVR A One; Credit Watch with Developing Implications]	Rating Re-affirmed, Credit Watch with Developing Implications
	Total	**194.40**		

** Including proposed limit of INR 5.00 Crore*

Details of facilities are in Annexure 1

Rating Rationale

IDL's rating outlook has been revised to Credit Watch with Developing Implications on account of COVID-19 impact on the business and financial performance in H1FY2021. Infomerics shall closely monitor the quarterly performance to assess the overall impact on the credit matrices going forward.

The aforesaid rating reaffirmation to the bank facilities of the entity derives strength from Long track record of the Holding Company (GOCL), Strong promoter group and experienced management, Demonstrated support from Hinduja Group, Niche product segment, Strong gearing ratios, improved operating cycle, Good order book position and Government opportunities. The rating is however constrained by Moderate profitability, Customer concentration risk, Vulnerability of profitability to fluctuations in raw material price, Concentration towards mining sector.

Key Rating Sensitivities:

- **Upward Rating Factor:**

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

- **Downward Rating Factor:**

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

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 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.

Strong gearing ratios

The overall gearing ratio (on TNW including Quasi Equity) of the Company is comfortable 0.55x as at FY19 & 0.61x as at FY20. The long-term debt to equity ratio stood comfortable at 0.11x as at FY20 (0.09x as at FY19). The Total outside liabilities to Tangible Net Worth of the Company also stood comfortable & improved from 1.66x as at FY19 to 1.44x as at FY20.

Improved Operating Cycle

The Average Operating Cycle of the Company has improved from 66 days as at FY19 to 60 days as at FY20, mainly on account of reduction in receivable 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 443 Crore; of which Coal India Limited and its subsidiaries contributed INR 199 Crore and Singareni Collaries Company Limited contributed INR 183 Crore. These orders on hand of INR 443 Crore constitute 104% of FY20 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 11%, however thereafter declined by 7% to INR ~427 Crore in FY20. The EBITDA margin also deteriorated to 4.94% in FY20 from 8.68% in FY19 due to an increase in raw material consumption cost in FY20.

Customer Concentration risk

The Company's top five customers accounted for around 71% in FY20 (76% in FY19) of the total revenue, 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 & Applicable Criteria:

- Standalone
- Rating Methodology for manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

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, 2020, the company had cash & balance of INR 22.28 Crore. The utilization of working capital limits remained low at 25% during the 12 months ended September 30, 2020, leading to a comfortable liquidity cushion.

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)

INR in Crore

For the year ended / As on	31-Mar-19 Audited	31-Mar-20 Audited
Total Operating Income	457.45	427.32
EBITDA	39.73	21.12
PAT	18.79	8.20
Total Debt	42.23	52.35
Tangible Net Worth	76.49	85.57
EBIDTA Margin (%)	8.68	4.94
PAT Margin (%)	4.08	1.91
Overall Gearing ratio (x)	0.55	0.61

Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2020-21)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (Nov. 04, 2019)	Date(s) & Rating(s) assigned in 2018-19 (Mar. 14, 2019)	Date(s) & Rating(s) assigned in 2017-18
Cash Credit	Long Term	10.00	IVR A/ Credit Watch with Developing Implications	IVR A/ Stable Outlook	IVR A-/ Stable Outlook	--
Letter of Credit/ Bank Guarantee/ CEL limit	Short Term	184.40*	IVR A1/ Credit Watch with Developing Implications	IVR A1	IVR A2+	--
	Total	**194.40**				

* *Including proposed limit of INR 5.00 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.

Name and Contact Details of the Analysts:

Name: Ms. Neha Mehta

Tel: (022) 62396023

Email: nmehta@infomerics.com

Name: Mr. Prakash Kabra

Tel: (022) 62396023

Email: prakash.kabra@infomerics.com

Press Release

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.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Amount (INR Crore) (Sanctioned)	Rating Assigned/ Outlook
Long Term Fund based – Cash Credit	--	--	--	10.00	IVR A/ Credit Watch with Developing Implications
Short Term Non-Fund based – Bank Guarantee/ Letter of Credit/ CEL limit	--	--	--	184.40*	IVR A1/ Credit Watch with Developing Implications

* *Including proposed limit of INR 5.00 Crore*

Annexure II: Facility wise lender details

https://www.infomerics.com/admin/prfiles/IDL-Explosives-27nov20.pdf