Press Release

SBL Energy Limited
August 08, 2022

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	45.50 (enhanced from 27.00)	IVR BBB/Stable (IVR Triple B with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	38.50 (enhanced from 15.00)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**84.00 (Rupees eighty four crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of SBL Energy Limited (SEL) considers healthy improvement in financial performance of the company with improved profitability in FY22 (provisional) along with its comfortable capital structure and healthy debt protection metrics. Further the ratings continue to derive comfort from the long track record of operation under experienced promoters, established market position and high entry barriers in the explosives business, thereby limiting competition. These rating strengths are partially offset by vulnerability of profitability to raw material price fluctuations, regulatory risks as the entire explosives industry are heavily regulated by the government, exposure to customer concentration risk and large working capital requirement.

Key Rating Sensitivities:

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 financial performance with improved profitability in FY22**

The company has witnessed steady y-o-y growth of ~74% in its total operating income in FY22 driven by higher demand of explosives attributable to rise in mining activities leading to increase in average sales realisation of industrial explosives and non-electronic detonator. Backed by steady growth in its TOI coupled with rise in average sales realisation and increase in capacity utilisation leading to higher absorption of fixed overheads the EBITDA margin has improved from 11.09% in FY21 to 17.03% in FY22. With steady growth in absolute EBITDA, the PAT margin has also grown from 4.06% in FY21 to 9.65% in FY22. With increase in top line, absolute EBITDA improved from Rs.16.37 crore in FY21 to Rs.43.75 crore in FY22. Gross cash accruals have also improved from Rs.11.46 crore in FY21 to Rs.30.21 crore in FY22.

- **Favorable financial risk profile marked by comfortable capital structure and healthy debt protection metrics**

The capital structure of the company remained comfortable over the years. During FY22, total debt has increased due to purchase of new vehicle and machinery loans taken for upgradation and machinery automation and ECLGS taken as additional working capital funding. However, backed by comfortable tangible net worth base amounting Rs.61.39 crore, overall gearing ratio has remained comfortable improved to 0.64x (1.06x in FY21) March 31, 2022. Total indebtedness of the company marked by TOL/TNW though moderated but remained comfortable at 1.69x as on March 31, 2022. (1.19x as on March 31,2021). Further, 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 has improved and remained comfortable at 8.21x in FY22 and 1.30 years as on March 31,2022.

- **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 benefitted 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 is 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.

- **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.

- **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 ~85% in the past 12 months ended May 2022 indicating a moderate liquidity buffer.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies]

[Financial Ratios & Interpretation (Non-Financial Sector)]

Liquidity: Adequate

Considering the improvement in sales in the present fiscal, the liquidity of the company is expected to remain adequate on the back of its expected adequate cash flow. SEL had generated adequate cash accrual of around Rs.30.21 Cr in FY22 as against its debt repayment obligation of around Rs.2.90 crore. Further, SEL is also expected to generate steady cash accrual in the range of ~Rs.44.49-61.48 crore over the near medium term against its repayment obligation in the range of~Rs.6.04-5.32 crore during FY23-25. 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 ~85% in the past 12 months ended May 2022 indicates a moderate 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.

One of the customers of SEL is Coal India Limited (CIL) and the product, SEL manufactures is of essential commodity for Coal India in nature, as the absence of the explosives may hamper the production of Coal India.

Financials of SEL (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	147.59	256.92
EBITDA	16.37	43.75
PAT	6.00	24.82
Total Debt	31.87	39.30
Tangible Net worth	36.57	61.39
EBITDA Margin (%)	11.09	17.03
PAT Margin (%)	4.06	9.65
Overall Gearing Ratio (x)	1.06	0.64
Interest Coverage Ratio (x)	6.37	8.21

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

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

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2022-23)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Rating (July 20, 2022)	Date(s) & Rating(s) assigned in 2021-22 (September 22, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1	Cash Credit	Long Term	25.00	IVR BBB; Stable	IVR BBB; Stable	IVR BBB-; Stable	-	-
2	Term Loan	Long Term	20.50	IVR BBB; Stable	IVR BBB; Stable	IVR BBB-; Stable	-	--
3	Non-Fund Based	Short Term	38.50	IVR A3+	IVR A3+	IVR A3	-	

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About Infomerics Ratings:

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.

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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 – Cash Credit	-	-	-	25.00	IVR BBB; Stable
Long Term Fund Based Limits – Term Loan	-	-	March 2028	20.50	IVR BBB; Stable
Short Term Non-Fund Based Limits	-	-	-	38.50	IVR A3+

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-sbl-energy-aug22.pdf
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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.