Press Release

SBL Energy Limited

September 22, 2021

Rating

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Long Term Bank Facilities	27.00	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities	15.00	IVR A3 (IVR A Three)	Assigned
Total	**42.00 (Rupees forty two crores only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of SBL Energy Limited (SEL) derives comfort from its long track record of operation under experienced promoters, established market position, stable financial performance with improvement in financial performance with improved profitability in FY21, favourable financial risk profile reflected by comfortable capital structure and high entry barriers in the explosives business, thereby limiting competition. However, these rating strengths are partially offset by its moderate scale of operations, vulnerability of profitability to raw materials price fluctuations, regulatory risks as the entire explosives industry is 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 2x

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).

- **Stable financial performance with improvement in financial performance with improved profitability in FY21**

SEL's operating performance though weakened over the past three fiscals remained stable. The revenue declined to ~Rs.149 crore in FY20 from ~Rs.194 crore in FY19 as the company was also engaged in trading of explosives in FY19 which used to contribute 9 to 10% of their revenue. However, since FY20, they are only engaged in manufacturing and they had stopped trading, which resulted in decline in revenue in FY20. During FY21, the topline of the company remained stagnant with marginal moderation of ~2% to Rs.146.94 crore mainly due to lockdown impact during H1FY21. The sales were marginally impacted as a section of the private mine operators and other customers were not operational during lockdown, which effected it sales in FY21. The operating profitability remain moderate and gradually improved to 10.70% in FY21 from 5.69% in FY19 driven by because of decline in raw material price vis-à-vis total operating income and increase in sales of electronic detonator which is higher margin product. The return indicators have remained satisfactory with RoCE of 15.46% in FY21. With improvement in absolute EBITDA, the PAT margin also witnessed gradual upturn from 1.81% in FY19 to 4.06% in FY21.

- **Favourable financial risk profile reflected by comfortable capital structure**

The capital structure of the company remained comfortable over the years. However, the long-term debt to equity and overall gearing ratio though moderated to 0.29x and 0.73x respectively remained comfortable as on March 31, 2021. Deterioration was mainly because of increase in total debt as on March 31, 2021 as the company has taken term loan for installing automated machinery at its existing premises, which will ultimately help the company to save on labour cost. This apart, the company has been sanctioned additional working capital limit of Rs.10.00 crore from Canara Bank. Increase in CC limit was basically to fund its working capital requirement. Major customers of SBL is big corporates like, Coal India Limited, Aditya Birla Group etc, where the payment is received in 170-180 days for which they had to take additional CC limit.

However, 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 remained comfortable at 6.12x and 2.78 years respectively in FY21.

- **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

- **Moderate scale of operations**

The company's scale of operations remains moderate at absolute levels, with revenues of ~Rs.147 crore in FY21.

- **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 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. This restricts pricing flexibility and leads to high credit offered to CIL.

- **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 140 days in FY21 mainly due to its elongated average collection period. Further, its more than six month debtors stood at around 20% of the net worth as on march 31,2021. Realisation from long pending debtors and movement if working capital cycle is a key rating monitorable.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

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.11.45 Cr in FY21 as against its debt repayment obligation of around Rs.1.15 crore. Further, SEL is also expected to generate steady cash accrual in the range of ~Rs.16.50-22.42 crore over the near medium term against its repayment obligation in the range of~Rs.2.90-5.65 crore during FY22-24. However, the average utilisation of its cash credit limit remained at ~94% in the past 12 months ended July ,2021 indicating a low 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 (Standalone):

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	149.39	146.94
EBITDA	10.83	15.72
PAT	4.73	6.00
Total Debt	15.10	31.87
Tangible Net worth	37.44	43.33
EBITDA Margin (%)	7.25	10.70
PAT Margin (%)	3.13	4.06
Overall Gearing Ratio (x)	0.40	0.73

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Limit	Long Term	20.00	IVR BBB- / Stable Outlook	-	-	-
2.	Term Loan	Long Term	7.00	IVR BBB- / Stable Outlook	-	-	-
3.	Non-Fund Based Limit	Short Term	15.00	IVR A3	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Ms. Nidhi Sukhani Tel: (033) 46022266	Name: Mr. Avik Podder Tel: (033) 46022266

Email: nsukhani@infomerics.com	Email: apodder@infomerics.com

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limit	-	-	-	20.00	IVR BBB-/ Stable Outlook
Long Term Loan	-	-	March 2026	7.00	IVR BBB-/ Stable Outlook
Short Term Non Fund Based Limit	-	-	-	15.00	IVR A3

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/SBL-energy-lenders-22sept21.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities:

Not Applicable

Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Fund Based Limit	Simple
2.	Term Loan	Simple
3.	Non-Fund Based Limit	Simple

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.