Press Release

IDL Explosives Ltd.

March 14, 2019

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1.	Long Term Fund Based Limits	10.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
2.	Short Term Non-Fund Based Facilities	134.40	IVR A2+ (IVR A Two Plus)	Assigned
	Total	**144.40**		

Ratings

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings take into account the strong promoter group and experienced management team, long track record of the holding company, demonstrated support from the Hinduja group, presence in a niche segment along with moderate profitability. The ratings further derive strength from the improving capital structure and comfortable debt protection metrics along with low working capital requirements.

The rating, however, is tempered by customer concentration risk, susceptibility of profitability to volatility in the prices of raw materials and foreign exchange fluctuations and concentration towards mining sector. Diversification of revenues and leverage are the key rating sensitivities.

Key Rating Drivers with detailed description

Key Rating Strengths:

Strong promoter Group and experienced management

The company is a part of the Hinduja Group. 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, who is the MD of IDL as well as

GOCL Corporation Ltd (GOCL). He is well assisted by a team of experienced management professionals having requisite experience in their respective fields.

Long track record of holding company

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. Currently, like IDL, it has its presence mainly in energetics.

Demonstrated Support from HindujaGroup

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.

Niche product segment

IDL operates in a niche product segment wherein it manufactures industrial explosives, 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.

Moderate profitability

IDL's total revenue stood steady at Rs.414.34 crore during FY18 as against Rs.421.80 crore during FY17. EBITDA margin dipped slightly from 8.37% in FY17 to 8.03% in FY18, mainly on account of slowdown in the industry. However, due to redemption of preference share of Rs.18.56 crore in FY18 and subsequent reduction in dividend to preference shareholders (which was classified under finance costs), the PAT margin improved from 3.06% in FY17 to 3.34% in FY18.

Improving capital structure and comfortable debt protection metrics

The capital structure of the company improved post the equity infusion in FY18 which was used for retiring the preference debt. The overall gearing stood at 0.75x as on March 31, 2018 as against 1.35x as on March 31, 2017.

Further, debt coverage indicators like Total Debt to GCA, term debt to GCA and interest coverage also stood comfortable at 2.81x, 0.37x and 5.18 respectively in FY18.

Low working capital requirements

Generally, the company has a policy of allowing a credit period of two months to its customers; while availing a credit period of 1-2 months from its suppliers. The company's cash conversion cycle is comfortable at 56 days. All these have resulted in low average fund-based working capital utilisation of about 26% in the last 12 months.

Key Rating Weaknesses

Customer Concentration risk

The company's top four customers accounted for around 76% of the total revenue. Out of the above, Coal India Ltd and Singareni Collieries Company Ltd themselves contributed around 61% of the total revenue, reflecting high customer concentration risk for the company.

Susceptibility of profitability to raw material prices and foreign exchange fluctuations

The key raw material for IDL is ammonium nitrate which constitutes approximately 65%-70% of the total raw material cost. Any adverse fluctuation in ammonium nitrate prices going forward may adversely impact the profitability of IDL. However, this risk is mitigated to a certain extent as price variation clauses are covered in contracts with Coal India Limited.

The company hedges around 50% of its open exposure by way of forward cover, while the balance portion remains unhedged. Thus, going forward, further weakening of the rupee may adversely impact the company. However, the management has indicated that for the past two months, the company is hedging 100% of its exposure by way of forward cover due to the volatility in rupee.

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 Approach
Parent/Group Support
Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The average utilisation of fund based limits was 26.42% for the past 12 months ended January 2019, leading to a comfortable liquidity cushion. Further the company had free cash and bank balance of Rs.10.32crore as on March 31, 2018. In the absence of any major term debt repayments by the company in future, the liquidity position is expected to be moderate going forward.

About the Company

IDL Explosives Limited (IDL) 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 Ltd (GOCL, rated IVR A-/Stable/IVR A2+ in April 2018).

At the time of inception of this company, the bulk explosives division of GOCL was demerged and IDL was formed. At present, the company is engaged in the manufacture of bulk explosive products which are used in the mining & infrastructure segment. The company's main manufacturing facilities are located at Rourkela in Odisha, which houses facilities for manufacture of entire range of packaged explosives and non-explosive emulsion matrix. IDL had industrial licenses of 2,03,500 MTPA of Industrial explosives as on 31.03.2018. During FY19, DIPP (Department of Industrial Policy & Promotion) has awarded the company an additional licenses for "67,500 MTPA of Industrial explosives and 100 Million units of Detonators", with this currently the Industrial license capacity augmented to "2,71,000 MTPA of Industrial explosives and 100 Million units of Detonators". The company's major customers are Coal India Limited and Singareni Collieries Company Ltd. IDL participates in reverse bidding auctions with these entities and procures orders from them. The terms of trade with these parties are generally 45-60 days credit.

Financials:

For the year ended* / As On	31-03-2017 (Audited)	31-03-2018 (Audited)
Total Operating Income	421.80	414.34
EBITDA	35.30	33.27
PAT	12.93	13.88
Total Debt	61.82	53.02
Tangible Networth	45.76	71.15
EBITDA Margin (%)	8.37	8.03
PAT Margin (%)	3.06	3.34
Overall Gearing Ratio (x)	1.35	0.75

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Bank Facilities- Cash Credit	Long Term	10.00	IVR A-/ Stable Outlook	--	--	--
2.	Short Term Bank Facilities	Short Term	134.40	IVR A2+	--	--	--

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 Rating Analyst:

Name: Mr. Nikhil Basutkar

Tel: (022) 62396023

Email: kspunjabi@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. 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 Bank Facilities- CC	NA	NA	NA	10.00	IVR A-/ Stable Outlook
Short Term Bank Facilities-LC/BG	NA	NA	NA	134.00	IVR A2+
Short Term Bank Facilities-Forward Contract and Derivative Limit	NA	NA	NA	0.40	IVR A2+