Press Release

Ideal Detonators Private Limited

November 28, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** to the Rs. 20.00 crore bank facilities of Ideal Detonators Private Limited (IDPL). The outlook is **'Stable'**.

Incorporated in 1989, IDPL is involved in manufacturing of detonators used in mining and infrastructure industries. The products include Aluminium Super Electric Detonators, Aluminium Super Electric Half Second Delay Dets, Aluminium Super Plain Detonators among others. The company has a manufacturing unit located in Narketpally (Telangana) with an installed capacity of 160 million units per annum. IDPL has reported revenues of Rs.57.36 crore and profit-after-tax (PAT) of Rs.8.35 crore for FY2018 against Rs.73.08 crore and Rs.8.22 crore respectively in FY2017.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Ideal Detonators Private Limited (IDPL) and Ideal Industrial Explosives Private Limited (IIEL) due to common ownership, common line of business with same clientele, and cross-holding of investments. Both the entities are herein referred to as group. Extent of Consolidation : Full.

About the Group

Incorporated in 1987, Ideal Industrial Explosives Limited (IIEL) is involved in manufacturing of commercial explosives and accessories. The company is licensed by Govt. of India to manufacture slurry explosives, emulsion explosives, bulk explosives, Pentaerythritol tetranitrate (PETN) and detonating fuse among others. The company has manufacturing units located at Narketpally (Telangana), Korba (Chhattisgarh), Waidhan (Madhya Pradesh), Odisha and Maharashtra. IIEL has reported revenues of Rs.347.72 crore and profit-after-tax (PAT) of Rs.8.61 crore for FY2018 against Rs.278.37 crore and Rs.7.04 crore in FY2017.

Key Rating Drivers

Strengths

- **Established Track record of operations and experienced management**

  The group is promoted by Mr. P Sadanand Reddy, first generation entrepreneur with over three decades of experience and currently, he is supported by his sons, Mr. P Rajeev Kumar and Mr. P Rakesh Kumar. The group started in 1987 and has gradually expanded to the present total capacity of 160 million units per annum for detonators; and on explosives, they have license upto the capacity of 30,000 MT, 900 MT and 52.5 million meters for production of slurry explosives, PETN and detonating fuse. The main units of the group are based out of Narketpally and Chityal (Nalgonda District in Telangana) spread across about 400 acres of land. The operations are managed by a team of well qualified and experienced second line personnel.

  The promoter's experience in the explosive industry has helped the company build healthy relationship with its suppliers and customers to ensure a steady raw material supply and large offtake. The group has L1 orders from Coal India Limited and its subsidiaries for a period of two years, which provides revenue visibility over the medium term. The group has unexecuted order book position of about Rs.720.00 crore executable over a period of two - three years. It gets about 70 percent of revenues from coal segment, 5 percent from cement industry, 20 percent from dealer segment and about 5 percent from exports. The group also supplies products to other mining and infrastructure industries and also supplies through dealers.

The group's facilities have the necessary control systems to avoid any explosions in the units and all the plants are licensed by Petroleum Explosives Safety Organisations (PESO) and Ministry of Commerce. The group's operations are diversified through plants located in Telangana, Chhattisgarh, Madhya Pradesh, Odisha and Maharashtra. The group also benefits from the diversified product profile such as Slurry, bulk and emulsion explosives and around ten varieties of detonators and other accessories. Acuité believes that the group benefits from reputed clientele, diversified product profile and experienced management in maintaining its business risk profile over the medium term.

- **Healthy financial risk profile**

The group's financial risk profile is marked by above-average gearing (debt-to-equity) and comfortable debt protection metrics, though constrained by high total outside liabilities to tangible net worth (TOL/TNW). The gearing is above-average, a significant improvement from 2.12 times as on 31 March, 2016 to 0.90 times as on 31 March, 2018; owing to regular accretion to reserves, modest term loan repayment obligations and no dividend outgo. Net worth is comfortable at Rs.62.81 crore as on 31 March, 2018 against Rs.45.84 crore as on 31 March, 2017. However, the group has extended advances to other group / associate entities to the tune of Rs.10.98 crore which would reduce the adjusted net worth to Rs.51.83 crore; and any incremental investments in group / associate entities is a key rating sensitivity factor.

Also, on a standalone basis, IIEL's TOL/TNW is high at 3.23 times as on 31 March, 2018 as compared to 3.76 times as on 31 March, 2018. The group's moderate net cash accruals and debt has led to comfortable NCA/TD and interest coverage ratio (ICR) of 0.41 times and 4.85 times in FY2018 vis-à-vis 0.37 times and 4.65 times in FY2017, respectively. The cash accruals stood at Rs.16.97 crore in FY2018 and are expecting to generate cash accruals of about Rs.20.0 - 25.0 crore over the medium term, against which it has Rs.3.20 crore of repayment obligations to increase the capacity to augment revenues as well as for backward / forward integration and to improve the safety of manufacturing processes, it does a regular capex of about Rs.5.00 crore per annum. Despite the same, its financial risk profile is expected to improve over the medium term.

Weaknesses

- **Moderate working capital operations**

The group has moderate working capital operations as evident from Gross Current Assets (GCA) of 115 days as on March 31, 2018 as against 118 days as on March 31, 2017. The moderate GCA days were mainly due to moderate debtor levels. The debtors stood at 60 days as on March 31, 2018 and provides credit period of 30-60 days to its customers. However, the group maintains low inventory levels to the tune of 2 weeks due to explosive nature of material. It gets a credit of about 60 days from its suppliers. Moderate working capital management has led to moderate utilisation of working capital limits over the past six months ended September 2018 to the extent of 60-70 percent. Acuité believes that the working capital operations of the company will remain moderate at these levels.

- **Exposure to regulatory risks**

The explosives industry has high entry barrier as it requires industrial licensing, and clearances from Government, Chief Controller of Explosives, and Directorate General of Mines Safety. Furthermore, as per the Ammonium Nitrate Rules 2012, ammonium nitrate, key raw material (comprises 70 percent of the group's total raw material cost), has been classified as an explosive. Hence, its production, distribution, sale, and stocking are subject to stringent rules and supervision on material movement and stocking. Sale of explosives is regulated by PESO to prevent misuse of end products. Though the group takes precautions at all stages of the manufacturing process, it will remain susceptible to regulatory risks and any outburst at the factory sites are exposed to serious eventuality to the workers and the public and are key rating sensitivity factors.

Outlook: Stable

Acuité believes that the group will maintain a 'Stable' outlook over the medium term from its promoter's industry experience and established track record of operations. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of any unforeseen events lead to disruption of operations, or any stretch in its working capital operations leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	403.26	345.94	303.11
EBITDA	Rs. Cr.	38.93	35.64	25.91
PAT	Rs. Cr.	16.97	15.25	11.24
EBITDA Margin	(%)	9.65	10.30	8.55
PAT Margin	(%)	4.21	4.41	3.71
ROCE	(%)	29.89	31.93	52.78
Total Debt/Tangible Net Worth	Times	0.90	1.25	2.12
PBDIT/Interest	Times	4.85	4.65	3.32
Total Debt/PBDIT	Times	1.42	1.55	2.12
Gross Current Assets (Days)	Days	115	118	130

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-22.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+

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About Acuité Ratings & Research:

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