

Press Release

Ideal Detonators Private Limited

February 19, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three Plus**) on the Rs.25.00 crore bank facilities of Ideal Detonators Private Limited (IDPL). The outlook is 'Stable'.

Incorporated in 1989, Ideal Detonators Private Limited (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 and among others. The company has its manufacturing unit located in Narketpally, Telangana with an installed capacity of 100 million units per annum.

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), Detonating fuse and among others. The company has manufacturing units located in Narketpally (Telangana), Korba (Chhattisgarh), Waidhan (Madhya Pradesh).

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of the Ideal Detonators Private Limited (IDPL) and Ideal Industrial Explosives Private Limited (IIEL) due to common management, operational and financial linkages to arrive at this rating. Both the entities are herein referred to as group.

Key Rating Drivers

Strengths

• Long track record of operations and experienced promoters

The group is promoted by Mr. P Sadanand Reddy, first generation entrepreneur with over three decades of experience in the explosive industry. Currently, he is supported by his sons, Mr. P Rajeev Kumar and Mr. P Rakesh Kumar. The group has a competent management supported by a team of well qualified and experienced second line personnel. Acuité believes that the promoters' extensive experience has helped the group to establish long term relations with customers and suppliers and the same is reflected in steady growth in the scale of operations.

• Improvement in operating income and Healthy order book position

The group registered operating income of Rs 489.46 crore in FY 2019 as compared to revenues of Rs. 403.19 crore in FY18, thereby registering a y-o-y growth of 21.40 per cent. The group has L1 orders from Coal India Limited and its subsidiaries for a period of two years. The growth in top line is on account of improved capacity utilization and volume growth of detonators.

Moreover, the group has an unexecuted order book position of ~Rs.813 crore to be executed within two years which gives adequate revenue visibility over the medium term. Acuité believes that the group's established long term relationship of over 20 years with its customers, mainly Coal India Limited has helped the group to receive regular orders.

- **Comfortable financial risk profile**

The group's financial risk profile is comfortable marked by modest net worth, low gearing and comfortable debt protection metrics. The tangible net worth of the group improved to Rs.82.01 crore in FY2019 as against Rs. 62.81 crore in FY2018 due to accretion of profits to reserves. The gearing stood low at 0.73 times as on 31 March, 2019 as against 0.90 times as on 31 March 2018. The total debt of Rs.59.95 crore consists of term loan of Rs.18.2 crore, short term borrowings of Rs.38.89 crore and unsecured loan of Rs.2.84 crore in FY2019. Moreover, the debt protection metrics is comfortable marked by interest coverage ratio (ICR) of 6.05 times in FY2019 as against 4.85 times in FY2018. Debt service coverage ratio (DSCR) stood at 3.24 times in FY2019 as against 2.28 times in FY2018. Net Cash Accruals/ Total Debt (NCA/TD) stood at 0.46 times in FY2019 as against 0.41 times in FY2018. Acuité believes the financial risk profile of the group to improve backed by healthy net cash accruals.

Weaknesses

- **Moderate working capital management**

The group's working capital operations are moderate as evident from Gross Current Asset (GCA) of 115 days in FY2019 same as FY2018. The inventory days stood at 21 days in FY2019 as compared to 17 days in FY2018. Detonators being a perishable product, the group cannot maintain stock of finished goods. The debtor days stood at 59 days in FY2019 same as FY2018. Moreover, the group's moderate working capital management is demonstrated by the ~ 60 per cent utilization in the working capital limit for the twelve months ended July, 2019. Acuité believes that the group's working capital operations likely to remain moderate at similar 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 per cent of the group's total raw material cost), has been classified as an explosive. Hence, its production, distribution, sale, and stocking require a license. Sale of explosives is regulated by Petroleum and Explosives Safety Organization (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.

Liquidity Profile

The group's liquidity profile is strong marked by moderate net cash accruals as against its debt obligations. The group generated cash accruals of Rs. 27.43 crore in FY19 to repay its maturing debt obligations of Rs.3.57 crore over the same period. Moreover, the group's working capital operations are moderate marked by gross current asset (GCA) of 115 days in FY2019. The current ratio stood at 1.18 times as on March 31, 2019 and the fund-based limit remains utilised at ~60 percent over the twelve months ended July, 2019. The group maintains unencumbered cash and bank balances of Rs.2.52 crore as on March 31, 2019. Acuité believes that the group's liquidity will remain strong over the medium term backed by steady cash accruals.

Outlook: Stable

Acuité believes that the group will continue to benefit from the extensive experience of the promoter. The outlook may be revised to 'Positive' in case of higher-than-expected revenues and profitability, leading to a substantial increase in cash accrual. The outlook may be revised to 'Negative' in case the group fails to achieve the projected revenues and profitability, or in case of deterioration in its financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	489.46	403.19
PAT	Rs. Cr.	19.20	16.97
PAT Margin	(%)	3.92	4.21
Total Debt/Tangible Net Worth	Times	0.73	0.90
PBDIT/Interest	Times	6.05	4.85

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Nov-2018	Cash Credit	Long Term	10.00	ACUITE BBB / Stable
	Letter of credit	Short Term	5.00	ACUITE A3+
	Bank guarantee/Letter of Guarantee	Short Term	5.00	ACUITE A3+

*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 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00 (Enhanced from Rs.5.00 crore)	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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