

Press Release

Ideal Detonators Private Limited

May 05, 2021



Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs.25.00 Cr
Long Term Rating	ACUITE BBB+/Stable (Upgraded)
Short Term Rating	ACUITE A2 (Upgraded & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BBB+**' (**read as ACUITE triple B plus**) from '**ACUITE BBB**' (**read as ACUITE triple B**) and upgraded and assigned the short term rating to '**ACUITE A2**' (**read as ACUITE A two**) from '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs.25.00 Cr bank facilities of Ideal Detonators Private Limited (IDPL). The outlook is '**Stable**'.

The rating upgradation on the bank facilities of IDPL factors in its improving scale of operations over the period from FY2018-2021 while maintaining its profitability margins, financial risk profile remained healthy and healthy order book position and reputed clientele. These strengths are underpinned by established track record of operations, experienced management. These rating strengths are partially offset by its moderate working capital management and susceptibility of revenue and margins to tender based nature of operations and exposure to regulatory risk.

About the company & the group

Hyderabad based, Ideal Detonators Private Limited (IDPL) was incorporated in 1989, by Mr. P Sadanand Reddy. The company is engaged 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 its manufacturing unit located in Narketpally, Telangana with an installed capacity of 160 million units per annum.

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. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- Long 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 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. The promoter's experience in the explosive industry has helped the group build healthy relationship with its suppliers and customers, to ensure a steady raw material supply and large offtake. 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.

- **Improving scale of operations and satisfactory profitability margins**

The revenues of the group has been steadily improving over the period from FY2018-2021 but marginally declined in FY2020 on account of decline in Ammonium Nitrite prices. The revenues of the group stood at Rs.403.19 Cr in FY2018, Rs.489.46 Cr in FY2019 and Rs.476.73 Cr in FY2020. The group has achieved turnover of Rs.500 Cr in FY2021 (Provisional). The revenues of the group are expected to improve over the medium term backed by healthy order book position. The profitability margins of the group remained satisfactory. EBITDA margins stood at 9.18 percent in FY2020 and 8.57 percent in FY2019. Profitability margins of the group are susceptible to tender based operations. The PAT margins of the group have improved to 4.05 percent in FY2020 as against 3.92 percent in FY2019. Acuité believes that the scale of operations of the group is expected to improve backed by healthy order book position.

- **Reputed clientele and healthy order book position**

The group has a healthy order book position of Rs.915 Cr as on March 31, 2021. This is expected to be executed in the next two years. Apart from this the group also has export order of 558200 dollars (\$). The revenue bifurcation of the group caters to 70 percent from Coal Segment; 25 percent from Dealers; 5 percent from Exports. The group also caters to reputed clientele such as Coal India Limited, Singareni Collieries Compay Ltd, Bharat Coking Coal Fields Ltd, Western Coal Fields Ltd, Mahanadi Coal Fields Ltd among others. Acuité believes that backed by healthy order book position and healthy relationship with reputed clientele will aid in improving the business risk profile of the entity and also helps in improve its scale of operations.

- **Healthy financial risk profile**

The financial risk profile of the group has remained healthy with healthy capital structure and debt protection metrics. The networth of the group stood at Rs.97.58 Cr as on March 31, 2020 as against Rs.82.01 Cr as on March 31, 2019. The gearing (Debt-to-equity) stood at 0.48 times and 0.73 times as on March 31, 2020 and 2019 respectively. The gearing improved due to decline in total debt levels. The debt protection metrics Interest Coverage Ratio and Debt Service Coverage Ratio stood at 5.19 times and 3.03 times respectively as on March 31, 2020 as against 6.05 times and 3.24 times respectively as on March 31, 2019. The marginal decline in debt protection metrics is on account of increase in interest cost due to increase in bank guarantee charges owing to orders. TOL/TNW stood at 1.51 times and 1.91 times as on March 31, 2020 and 2019 respectively. Acuité believes that financial risk profile of the company is expected to remain healthy over the medium term backed by healthy cash accruals and no plans of significant debt funded capex.

Weaknesses

- **Moderate working capital management**

The working capital management of the group remained moderate with moderate GCA days at 112 days and 115 days as on March 31, 2020 and 2019 respectively. The inventory days stood at 22 days and 21 days as on March 31, 2020 and 2019 respectively. The group dispatches the finished goods within a day to the customers due to explosive nature of the material and maintains raw material inventory for less than a month. Debtor days stood at 58 days and 59 days as on March 31, 2020 and 2019 respectively. Creditor days stood at 86 days and 78 days as on March 31, 2020 and 2019, respectively. Working capital limits of Ideal Detonators Private Limited remained utilized at 21 percent and Ideal Industrial Explosives Private Limited at 84 percent for the last six months ended March 2021. Acuité believes that the working capital management of the group is expected to remain moderate over the medium term.

- **Exposure to regulatory risk**

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.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Strong

The liquidity position of the group remained strong with strong net cash accruals to service its debt obligations. The NCA's stood moderate and remained in the range of Rs.23.06-28.69 Cr through FY2018-2020 against the repayment obligation of Rs.3.57-3.84 Cr. The NCA's are expected to be in the range of Rs.33.00-43.00 Cr through FY21-23 against the repayment obligation of Rs.3.40-3.75 Cr. The current ratio stood at 1.17 times as on March 31, 2020. The cash and bank balance stood at Rs.2.51 Cr as on March 31, 2020. Working capital limits of Ideal Detonators Private Limited remained utilized at 21 percent and Ideal Industrial Explosives Private Limited at 84 percent for the last six months ended March 2021. Acuité believes that the liquidity profile continues to be strong supported by accruals and moderate working capital management.

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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	476.73	489.46
PAT	Rs. Cr.	19.32	19.20
PAT Margin	(%)	4.05	3.92
Total Debt/Tangible Net Worth	Times	0.48	0.73
PBDIT/Interest	Times	5.19	6.05

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

None

Any Material Covenants:

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
19-Feb-20	Cash Credit	Long Term	10.00	ACUITE BBB/ Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A3+ (Reaffirmed)
28-Nov-18	Cash Credit	Long Term	10.00	ACUITE BBB/ Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3+ (Assigned)

*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 (Upgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 (Assigned)

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About Acuité Ratings & Research:

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