

## Press Release

### Ideal Detonators Private Limited

June 22, 2022



### Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE A-   Stable   Upgraded	-
Bank Loan Ratings	15.00	-	ACUITE A2+   Upgraded
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

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

The rating upgrade reflects the company's healthy improvement in scale of operations, aided by growth in the non-electric detonator segment and a ramp-up in explosives segment sales, due to the receipt of a higher number of orders from its major customers, increased capacities, and an increase in the prices of industrial explosives. The company's promoters' extensive experience in the detonator and explosives manufacturing business, its well-established and diversified customer base with presence in both domestic and international markets, a healthy capital structure, coverage indicators, and strong liquidity position continue to provide comfort to the ratings. The ratings also note that Ideal Group's industry involves high entry barriers, notably rigorous monitoring and license regulations, which limit the entry of new players.

The ratings, however, continue to remain constrained Vulnerability of the ideal group's profitability to sharp volatility in raw material prices and regulatory risks associated with the explosives industry. And the industry is prone to accidents, despite compliance with all mandated safety requirements owing to the nature of its products and the raw materials used.

### About Company

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.

## About the Group

Incorporated in 1987, Ideal Industrial Explosives Limited (IIEL) is involved in manufacturing of commercial explosives and accessories. IIEL is the flagship company of the Ideal Group, which is promoted and headed by Mr. P Sadanand Reddy. 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 sxi manufacturing units located in Chityal (TS), Kothagudem (TS), Waidhan (MP), Korba (Chattisgarh), Chandrapur (Maharashtra) and Sambalpur (Odisha).

## Analytical Approach

### Extent of Consolidation

- Full Consolidation

### Rationale for Consolidation or Parent / Group / Govt. Support

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 or Ideal 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. Ideal group is an established player in the industrial explosives business with a long track record of operations of over 3 decades. 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.

#### Strong revenue growth in FY22; likely to continue in FY23.

The group's revenue grew over 44% in FY2022, supported by high volume growth and higher realisations, while the operating margin declined to over ~6.9% from 9.07% on account of higher volatility raw material prices. The growth in revenue is driven by healthy orders from its major customers, increased capacities along with an increase in the price of industrial explosives. Acuité believes that the scale of operations of the group is expected to improve backed by healthy order book position.

#### Reputed customer base; established relationship with them ensures repeat orders

Most of Ideal Group customers are large and reputed players in the mining and infrastructure industry, and the company has been able to secure repeat orders from them. Ideal Group has a reputed customer profile, comprising Coal India Limited (CIL) and its subsidiaries, Singareni Collieries Company Limited (SCCL), the Ministry of Defence (Government of India), etc. with whom it has developed strong relationship over the years. The company's total order book as on April 30, 2022 stood at Rs. 1906 Cr. The promoter's relationship with customers translates into numerous repeat orders, aiding its market position. Acuite 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.

### **Favourable demand prospects and High entry barriers in the explosives business, thereby limiting competition**

The Company caters to the demand of end-user industries such as mining, infrastructure, etc. With the government's rising budget allocations towards infrastructure, the demand prospects for the company's products will increase. Also, the government's emphasis on Atma Nirbhar Bharat, Make in India and other schemes augurs well for the company's industry. However, the margins remain exposed to the demand from these industries. 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 new players and, thereby, any competition. This has benefitted existing players, with the industry at present being dominated by the top 6-7 players.

### **Healthy Financial Risk Profile**

The Group's financial risk profile is healthy, marked by healthy net worth, comfortable capital structure and healthy debt protection metrics. The tangible net worth of Group is healthy at around Rs.138.95 Cr as on 31 March, 2022 (provisional) as against Rs.117.66 Cr as on 31 March, 2021 due to healthy accretion to reserves. The Group has followed a conservative financial policy in the past, the same is reflected through its gearing and total outside liabilities to total net worth (TOL/TNW) are comfortable, stood at 0.39 times and 1.42 times as on 31 March, 2022 (Provisional) vis-à-vis 0.33 times and 1.25 times as on 31 March, 2021. The debt protection metrics has improved and reported healthy; marked by interest coverage ratio and net cash accruals to total debt (NCA/TD) at 6.84 times and 0.59 times, respectively, in FY2022 as against at 5.36 times and 1.25 times, respectively, in FY2021. Group's Debt/EBIDTA is comfortable at 1.10 times in FY2022 (FY2020:0.87 times). Acuite believes that the group's financial risk profile will remain healthy over the medium term.

### **Efficient Working capital Management**

The Group's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 112-120 days over the last 3 years ended as on March 31, 2022. The company maintains inventory of around 22-34 days and debtor's days ranged between 42-58 days during the last three years ended March 31, 2022. The group extends a credit period of around 80-93 days to its customers and realizes payments within 42-58 days. On the other hand, the company gets 42-58 days credit from its suppliers. As a result, the reliance on working capital limits is moderate, leading to moderate utilisation of its bank lines at an average of 87 per cent over the last six months through March 2022. Acuite expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the group credit period extended to its customers.

### **Weaknesses**

#### **Vulnerability of profitability to raw materials**

The Group'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 their prices. Furthermore, increase in sales from the relatively low margin explosives segment, going forward, is likely to result in some moderation in Group's operating profit margins from the current levels, although absolute profits are expected to grow in line with growth in scale of operations.

#### **Exposed to regulatory risks**

The explosive industry is regulated by the Petroleum and Explosives Safety Organisation, which continuously monitors the sale of explosives to avoid misuse of the finished products. The nature of the products and their usages are prone to abuse not only in India, but globally, which makes the industry highly sensitive and vulnerable. The Department of Explosives under the Government of India, located in Nagpur, Maharashtra, is the licensing authority for overseeing the safety of hazardous materials produced and marketed by the industry. Given the nature of the products and their hazardous raw materials, the vulnerability to accidents

remain high, despite compliance with all mandated safety requirements. Though the group takes precautions at all stages of its process from manufacturing to delivering, it will remain susceptible to regulatory risks and intervention.

### **ESG Factors Relevant for Rating**

Not Applicable

### **Rating Sensitivities**

- Substantial and Sustained improvement in the group's scale of operations and profitability from the current levels
- Any large debt-funded capital expenditure, which may adversely impact its capital structure and liquidity
- Any further deterioration in working capital management leading to deterioration in financials risk profile
- Disruption in operations because of untoward incidents
- Any adverse regulatory measures weakens the Groups credit profile

### **Material Covenants**

None

### **Liquidity Position: Strong**

Group has strong liquidity marked by adequate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.28 to 32 Cr during the last three years through 2020-22, while its maturing debt obligations were in the range of Rs.2.40 to 4.60 Cr over the same period. The cash accruals of the group are estimated to remain around Rs.38-47 Cr during 2023-25 while its repayment obligation are estimated to be around Rs. 2.50-3.50 Cr during the same period. The group's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 118 in FY 2022 (FY202: 112 days). This has led to moderate reliance on its working capital borrowings, the working capital limit of the group remains utilized at 87 percent during the last 6 months period ended March 2022. The group maintains unencumbered cash and bank balances of Rs.15.47 Cr as on March 31, 2022. The current ratio of the group stand moderate at 1.26 times as on March 31, 2022. The group is likely to incur regular capex of Rs.10-12 Cr yearly. Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of adequate cash accrual and no major large debt capex plans over the medium term.

### **Outlook: Stable**

Acuite believes that the group will continue to benefit from the extensive experience of its promoters in the explosives business, reputed clientele, expected growth in revenues and healthy capital structure and coverage indicators coupled with strong liquidity cushion. 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 or if group generates lower-than-anticipated cash accruals most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex or any significant investments in group entities or Disruption in operations because of untoward incidents or any adverse regulatory measures weakens the Groups credit profile.

### **Other Factors affecting Rating**

Not Applicable

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	702.05	487.69
PAT	Rs. Cr.	22.84	20.08
PAT Margin	(%)	3.25	4.12
Total Debt/Tangible Net Worth	Times	0.39	0.33
PBDIT/Interest	Times	6.84	5.36

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

Not Available

### Any Other Information

None

### Applicable Criteria

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

### Note on Complexity Levels of the Rated Instrument

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

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 May 2021	Proposed Bank Facility	Short Term	5.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Bank Guarantee	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
19 Feb 2020	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 2018	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A2+   Upgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-   Stable   Upgraded
Union Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A2+   Upgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+   Upgraded



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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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