Press Release
IDEAL DETONATORS PRIVATE LIMITED
September 18, 2023
Rating Reaffirmed

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

Rating Rationale

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

Rationale for Rating Reaffirmation

The rating reaffirmation takes into account the augmentation in business risk profile reflected by healthy improvement in scale of operations of the group, aided by the receipt of a higher number of orders from its major customers, increased capacity utilisation, new plant in Jharkhand and an increase in the prices of industrial explosives. The revenues of the group stood at Rs.1209.89 Cr. in FY2023 (Provisional) compared against Rs.697.90 Cr. in FY2022. The growth in revenues were also supported by increase in its overall realisation per unit by 50-70 percent during the period. The rating also draws comfort from the promoters' extensive experience in the detonator and explosives manufacturing business and its well established and diversified customer base with presence in both domestic and international markets. The rating also factors in the healthy financial risk profile of the group with comfortable debt protection metrics, low gearing level and strong liquidity position.
Acuité also takes a note that Ideal Group's industry involves high entry barriers, notably rigorous monitoring and license regulations, which limit the entry of new players. The rating, 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. Furthermore, the industry is also 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 seven

manufacturing units located in Chityal (TS), Kothagudem (TS), Waidhan (MP), Korba (Chattisgarh), Chandrapur (Maharashtra), Sambalpur (Odisha) and newly started plant in Jharkhand in 2023.
The Major clientele are Singareni Collories Company Ltd, Coal India Ltd., Western Coal Fields of Coal India Ltd., Northern Coal fields of Coal India Ltd, Mahanadi Coal Fields, Neyveli Lignight Corporation, Visakhapatnam Steel Plant & Cement Units, etc.

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.

Key Rating Drivers

Strengths

Established operations with 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.

Improvement in scale of operations with strong order book position

The group's revenue grew over 73% in FY2023 (prov), supported by increase in volumes and higher realisations. The turnover of the group stood at Rs.1209.89 Cr in FY2023 (prov) as against Rs.697.90 Cr in FY2022. However, the operating margin remained stagnant at ~6.47 percent in FY2023 (prov) from 6.49 percent in FY2022 and 9.00 percent in FY2021 on account of higher volatility raw material prices. On the other hand, the group's absolute EBITDA has increased YoY from FY2021 to FY2023. The group EBITDA stood at Rs.78.30 Cr as on FY2023 (prov), Rs.45.20 Cr as on FY2022 as against Rs.44.22 Cr as on FY2021. The growth in revenue is driven by healthy orders from its major customers, expansion in the business by adding new plant, 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.
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 June 30,2023 stood at Rs. 2421.25 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 aid 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 remained healthy, marked by a healthy networth, low gearing and comfortable debt protection metrics. The tangible net worth of Group stood at Rs.187.36 Cr as on 31 March, 2023 (prov) as against Rs.141.27 Cr as on 31 March, 2022. The debt-equity ratio improved and stood at 0.26 times as on March 31, 2023 (prov) as against 0.38 times as on March 31, 2022.The total debt of Rs.48.95 Cr as on March 31, 2023 consist of long-term debt of Rs.13.84 Cr, Short term debt of Rs.33.57 Cr and maturing portion of long term borrowings of Rs.1.53 Cr. The long term loan has increased to Rs.13.84 Cr in FY2023 (prov) from Rs.8.24 Cr in FY2022. Group has availed Rs.4.57 Cr for the adding of heavy vehicles. The improvement and growth in the business, resulted better position of the debt equity ratio. The debt protection metrics has improved and remained healthy marked by Interest Coverage Ratio of 9.98 times in FY2023 (prov) as against 6.46 times in FY2022 and debt service coverage ratio (DSCR) of 6.45 times in FY2023 (prov) against 4.23 times in FY2022. The total outside liabilities to tangible net worth (TOL/TNW) has improved and stood at 1.30 times as on 31 March 2023(prov) as against 1.40 times as on 31 March, 2022. Group's Debt/EBIDTA is comfortable at 0.61 times as on 31st March 2023 (prov) as against 1.15 times as on 31st March 2022. Acuité 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 74-117 days over the last 3 years ended as on March 31, 2023 (prov). The Inventory days improved to 25 days as on 31st March 2023 (prov) as compared to 34 days as on 31st March 2022. The debtor days improved and stood low at 32 days as on March 31, 2023 (prov) and 42 days as on 31st March 2022. Ideal group working capital requirements are moderate on the back of comfortable debtor days. Creditors days are improving with 59 days as on 31st March 2023 (prov) as compared to 80 days as on 31st March 2022. As a result, the reliance on working capital limits is low, leading to moderate utilisation of its bank lines at an average of 26.74 per cent over the last twelve months through May 2023. Acuité believes that the working capital operations of the group will remain almost at the same levels as evident from efficient collection mechanism over the medium term.

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.

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

All Covenants

Not applicable

Liquidity Position: Strong

Group has strong liquidity marked by adequate net cash accruals to its maturing debt obligations. The group has generated cash accruals in the range of Rs.56 -31-29 Cr during last three years ending March 31, 2023 (prov) as against its long term debt obligations of Rs.1.53 Cr for the same period. The group is expected to generate healthy NCAs in the range of Rs.65 -86 Cr. against modest CPLTD of Rs.1.53 Cr. The Bank Limit utilization for the fund based facilities of IDPL is moderately utilized at an average of nearly of 26. 74% for the 12 months ending May 2023. The cash and bank balances of the group stood at Rs.6.70 Cr as on March 31, 2023 (prov). The liquid investments of the company stood at Rs.29.84 crore as on March 31,2023 (prov). The current ratio stood at 1.25 times as on March 31, 2023 (prov). Acuite believes that the liquidity of the group is likely to remain strong over the medium term on account of adequate cash accrual.

Outlook: Stable

Acuité 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 margins, leading to a substantial increase in cash accrual. The outlook may be revised to 'Negative' in 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

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	1209.89	697.90
PAT	Rs. Cr.	46.09	22.06
PAT Margin	(%)	3.81	3.16
Total Debt/Tangible Net Worth	Times	0.26	0.38
PBDIT/Interest	Times	9.98	6.46

Status of non-cooperation with previous CRA (if applicable)
None

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
In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jun 2022	Proposed Bank Facility	Short Term	5.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Cash Credit	Long Term	10.00	ACUITE A- | Stable (Upgraded from ACUITE BBB+ | Stable)
	Letter of Credit	Short Term	1.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Bank Guarantee	Short Term	9.00	ACUITE A2+ (Upgraded from ACUITE A2)
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)

Annexure - Details of instruments rated

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

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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.