June 28, 2024

CDET Explosive Industries Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based – CC	22.50	22.50	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
Long term fund based – Term loan	9.34	9.34	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable
Short term Non-fund based: Interchangeable	(20.00)	(20.00)	[ICRA]A2+ reaffirmed
Long term - Unallocated limits	23.16	23.16	[ICRA]A- (Positive); rating reaffirmed; outlook revised to Positive from Stable
Total	**55.00**	**55.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has considered the consolidated financials of CDET Explosive Industries Private Limited (CDET/the company) and its subsidiaries as enumerated in Annexure-II due to the corporate guarantees extended by the company to the latter and the strong operational (common line of business) and managerial linkages between the company and its subsidiaries.

The revision in the outlook to Positive from Stable has been driven by a favourable demand outlook for the company's explosives and detonators from the mining industry, both coal and non-coal. ICRA expects the positive demand outlook to result in a meaningful growth in the company's scale of operations and profitability. While CDET's consolidated revenue had remained around Rs. 300.8 crore in FY2022, it rose to Rs. 466.2 crore in FY2023 and is expected to remain in the range of Rs. 400-430 crore in FY2024. The revenue growth in FY2023 was driven by higher realisations as the price of ammonium nitrate, which is a key raw material, witnessed a sharp uptick. The prices came down significantly in FY2024 and thus the growth in FY2024 is expected to be largely driven by sales volume.

The ratings continue to draw comfort from the extensive experience of the company's promoters in the detonators and explosives manufacturing business, its well-established and diversified customer base with presence in both the domestic and international markets, the healthy capital structure and coverage indicators and a strong liquidity position. The ratings also note the high entry barriers in CDET's business with stringent monitoring and licensing requirements, which limit the entry of new players and, thereby, the competition.

The ratings, however, continue to be constrained by the moderate scale of operations, although there has been growth in the recent period. The vulnerability of the company's profitability to a sharp volatility in raw material prices, mainly metals and chemicals, and the rising share of revenues from the lower-margin cartridge explosives segment may impact the profitability in the near term. Further, ICRA notes the unsecured advances (Rs 6.34 crore) extended to unrelated parties having relatively low credit profiles. The ratings also continue to be constrained by the regulatory risks associated with the explosives industry. ICRA notes that the industry is prone to accidents, despite compliance with all the mandated safety requirements owing to the nature of its products and the raw materials used.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established presence in manufacturing of detonators and explosives – CDET is promoted by the Rathi family, with over two decades of experience in the detonators and explosives manufacturing industry. The company was established in 1998 and has two group concerns, Commercial Explosives (India) Private Limited (manufacturing safety fuses) and Raja Explosives Private Limited (REPL; manufacturing cartridge explosives) that are engaged in the same business.

Healthy financial risk profile – The capital structure of the company (standalone) remained comfortable in FY2023, with the interest coverage indicators improving to 70. 9 times from 43.5 times in FY2022 due to higher profitability. The DSCR also improved to 23.4 times in FY2023 compared with 16.2 times in FY2022. The total debt/OPBITDA sustained at 0.2 times in FY2023 and FY2022. Going forward, with the increase in the scale of operations, the capital structure is expected to remain comfortable and the debt coverage indicators will be healthy. The company's working capital intensity also improved in FY2023 on a standalone basis; the NWC/OI stood at 14.9% during the fiscal against 20.3% in FY2022 as the inventory days reduced to 60 days in FY2023 from 100 days in FY2022.

At a consolidated level, the NWC/OI stood at 14.7% in FY2023 compared to 15.4% in FY2022. On a consolidated basis, the interest coverage indicators improved to 41.4 times in FY2023 from 33.4 times in FY2022, while the DSCR stood at 12.3 times against 11.3 times in FY2022 due to the improved profitability and modest repayment obligation. The total debt/OPBITDA declined to 0.4 times in FY2023 from 0.5 times in FY2022.

On a standalone basis, the company repaid all its term loans in FY2024 and is thus essentially debt-free with a repayment of Rs. 1.99 crore pending for Raja Explosives Private Limited (REPL) which is to be made in FY2025. Thus, the overall credit profile has witnessed a significant improvement.

Geographic diversification with presence in domestic and export markets; well-diversified and established customer base – Exports constituted 13% of the company's total sales in 9MFY2024 and 11% in FY2023. The exports are well-diversified across countries. The company tries to maintain a level of diversification, with the top five customers accounting for 44.36% of the sales in 9M FY2024 against 34% in FY2023; the share of the top 10 customers in the total sales also remains between 45% and 55%.

High entry barriers in explosives business, thereby limiting competition – 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, thereby limiting any competition. This has benefitted existing players, with the industry at present being dominated by the top 7-8 players.

Credit challenges

Moderate albeit improving scale of operations – The company's scale of operations remains moderate. However, it increased by 57.4% to Rs. 305.3 crore in FY2023 on a standalone basis from Rs. 194 crore in FY2022. The consolidated revenue grew by 55% to Rs. 466.2 crore in FY2023 on the back of an increase in raw material prices. The revenue is expected to moderate to Rs. 400-425 crore in FY2024 as the realisations have moderated in line with the softening of raw material prices, which will be partially offset by the growth in sales volume.

Vulnerability of profitability to raw materials; changes in product mix with rising share of lower-margin cartridge explosives may moderate margin - The company'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 the adverse movement in their prices. Further, an increase in sales from the relatively low-margin explosives segment, going forward, might result in some moderation in CDET's operating profit margins from the current levels.

Unsecured advances to unrelated parties– CDET had advanced Rs. 6.32 crore (provisional) as on March 31, 2024 and Rs. 6.14 crore as on March 31, 2023 to many unrelated parties with the purpose of parking extra cash and earning interest income. These also include advances to some real estate developers based in its home location – Nagpur. However, the company has not witnessed any major instances of bad debt from these advances in the last three years.

Exposed to regulatory risks - The explosives industry is heavily regulated, exposing the company's operations to regulatory risks. The nature of the products and their usage are prone to abuse not only in India, but globally, which makes the industry highly sensitive and vulnerable. The Petroleum and Explosives Safety Organisation under the Government of India, located in Nagpur, Maharashtra, is the licensing authority for overseeing the safety of the hazardous materials produced and marketed by the industry. Given the nature of the products and the hazardous raw materials, the vulnerability to accidents is high, despite compliance with all the mandated safety requirements.

Liquidity position: Strong

CDET's liquidity position is strong, supported by healthy cash and liquid investments and adequate buffer in working capital limits. The consolidated cash accruals are expected to remain healthy, against which it has only modest repayment obligations of Rs. 1.99 crore in FY2025 along with no major capex plan. With expected growth in scale of operations, moderate working capital intensity and no major capex plans, the liquidity position is expected to remain strong.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to maintain a healthy profitability level along with healthy capitalisation and coverage metrics.

Negative factors – The outlook may be revised to Stable in a scenario of significant moderation in the scale and profitability going forward. The ratings may also be downgraded if a higher-than-anticipated debt-funded capex or a further stretch in the working capital leads to weakening of the debt coverage metrics and/or moderation in liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CDET (refer to Annexure II)

About the company

CDET explosive Industries Private Limited, incorporated in 1998, is promoted by Mr. Ashok Rathi and family. The company is engaged in the manufacturing of detonators (a device used to trigger explosives) and explosives. CDET has a manufacturing unit at Wardha (Maharashtra) with an installed capacity of ~100 million units of detonators and 30,000 MTPA of cartridge explosives and bulk explosives each. The five main types of detonators manufactured by CDET are plain detonators, instantaneous electric detonators, delay electric detonators and non-electric detonators used primarily in the mining and infrastructure sectors. CDET has a licensed capacity to manufacture 200 million detonators per annum and 60,000 MTPA of explosives.

CDET, on a standalone basis, reported a profit after tax (PAT) of Rs. 59.7 crore on an OI of Rs. 305.3 crore in FY2023 compared to a PAT of Rs. 33.5 crore on an OI of Rs. 194.0 crore in FY2022. On a consolidated basis, it reported a PAT of Rs. 65.8 crore on an OI of Rs. 466.2 crore in FY2023 compared to the PAT of Rs. 41.4 crore on an OI of Rs. 300.8 crore in FY2022.

Key financial indicators (audited)

CDET - Consolidated	FY2022	FY2023
Operating income	300.8	466.2
PAT	41.4	65.8
OPBDIT/OI	20.6%	20.8%
PAT/OI	13.8%	14.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.5	0.4
Interest coverage (times)	33.4	41.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					June 28, 2024	-	Mar 31, 2023	Dec 07, 2021
1	Cash credit	Long-Term	22.50	-	[ICRA]A- (Positive)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term loan	Long-Term	9.34	2.87	[ICRA]A- (Positive)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund based interchangeable	Short-Term	(20.00)	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long-term	23.16	-	[ICRA]A- (Positive)	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund-based cash credit	Simple
Long-term: Fund-based term loan	Simple
Short-term: Interchangeable	Very Simple
Long-term: Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity’s financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	22.50	[ICRA]A- (Positive)
NA	**Term loan**	FY18 – FY22	9.40%	FY25 – FY27	9.34	[ICRA]A- (Positive)
NA	**Non-fund based interchangeable**	NA	NA	NA	(20.00)	[ICRA]A2+
NA	**Unallocated limits**	NA	NA	NA	23.16	[ICRA]A- (Positive)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	CDET Ownership	Consolidation Approach
CDET Explosives Industries Private Limited	100.00% (rated entity)	Full Consolidation
Raja Explosives Private Limited	50.01%	Full Consolidation
Chamundi Power Controls Private Limited	69.39%	Full Consolidation

Source: Company data

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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