August 06, 2024

Premier Explosives Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Cash credit	45.00	45.00	[ICRA]BBB+(Stable); reaffirmed
Short term – Fund-based limits	-	35.00	[ICRA]A2; assigned
Long term – Fund-based – Term loans	25.10	25.10	[ICRA]BBB+(Stable); reaffirmed
Long term – Interchangeable	(35.00)	(35.00)	[ICRA]BBB+(Stable); reaffirmed
Short term - Non-fund based	253.10	283.10	[ICRA]A2; reaffirmed/assigned for enhanced amount
Short term - Interchangeable	(375.00)	(385.00)	[ICRA]A2; reaffirmed/assigned for enhanced amount
Long term – Unallocated	1.90	-	-
Total	**325.10**	**388.20**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings takes into account a healthy order book position of Premier Explosives Limited (PEL) as on June 30, 2024, providing near to medium-term revenue visibility. The company had an outstanding order book of ~Rs. 899 crore as on June 30, 2024. Further, majority of this order book (~85%) is from the margin-accretive defence segment. The robust order book and a favourable demand outlook for the defence segment is expected to result in a healthy growth in the company's scale of operations in the near to medium term.

The Atmanirbhar Bharat Abhiyan of the Government of India (GoI), which is aimed at curtailing import dependence and increasing the sourcing of indigenous defence products, presents large growth opportunities for the company. ICRA also notes the favourable demand prospects, fuelled by the growth in the end-user industries. The company's marquee clientele, comprising Singareni Collieries Company Limited (SCCL), Bharat Dynamics Limited (BDL) and Indian Space Research Organisation (ISRO), and the repeat orders from many customers also provide comfort.

There has been a significant improvement in PEL's operating profit in FY2024, driven by increasing revenue contribution from the high-margin defence segment. While the operating profit is expected to be healthy in the near to medium term, supported by the execution of margin-accretive defence orders. However, the likely levy of liquidated damages (LD) to impact the profitability. In FY2024, the company had received orders worth ~Rs. 533 crore (3 orders) towards the supply of chaffs and flares. The LD is likely to be levied as the supply for the orders has not been completed within the timeline due to challenges in securing raw material and components because of various geopolitical challenges.

The ratings are constrained by the high working capital intensity owing to the long receivable cycle of the defence segment, which can stretch up to three to six months. The ratings also consider the vulnerability of the commercial explosive segment's profitability to the volatility in raw material prices as the pass-through may be with a lag amid intense pricing competition. Further, the customer concentration remains high for PEL. ICRA also notes the highly regulated nature of the explosives manufacturing industry with the need for licensing for various products. Therefore, the company's operations remain vulnerable to any changes in the regulatory framework.

The Stable outlook on the long-term rating reflects ICRA's expectation that PEL is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, aimed at expanding the product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

Key rating drivers and their description

Credit strengths

Reputed client profile in commercial explosives, defence and aerospace segments – The company has been present in the commercial explosives business for about four decades and is one of the well-known players in the space. PEL continues to have marquee clients in the mining and infrastructure industries, such as Singareni Collieries Company Limited. Further, PEL is one of the few private players supplying chemicals/explosives for the defence sector and benefits from its technological expertise in the segment. The company has also entered the Indian Space programme as an approved supplier of PSOM XL motors to ISRO for use in polar satellite launch vehicles (PSLV).

Increasing share of margin-accretive defence business in order book provides revenue visibility – The company had a healthy outstanding order book of ~Rs. 899 crore as on June 30, 2024. Majority of this order book (~85%) is from the margin-accretive defence segment. The robust order book and favourable demand outlook for the defence segment is expected to result in a healthy growth in the company's scale of operations in the near to medium term. ICRA notes a significant improvement in PEL's operating profit in FY2024, driven by increasing revenue contribution from the high-margin defence segment. While the operating profit is expected to be healthy in the near to medium term, supported by the execution of margin-accretive defence orders. However, likely a likely levy of liquidated damages (LD) to impact the profitability. In FY2024, the company had received orders worth ~Rs. 533 crore (3 orders) towards the supply of chaffs and flares. The LD is likely to be levied as the supply for the orders has not been completed within the timeline due to challenges in securing raw material and components because of various geopolitical challenges.

Comfortable capital structure – PEL's capital structure continues to be comfortable with a gearing of 0.3 times as on March 31, 2024. The expected revenue growth and healthy profitability is likely to keep the company's gearing at similar levels.

Favourable demand prospects with end-user industries demonstrating growth – The company caters to the demand of end-user industries, such as mining, infrastructure, defence and aerospace. The demand prospects for the company's products are expected to increase with the Government's rising budgetary allocation towards defence. Also, the Government's announcement of a negative list of imports to encourage domestic procurement and the permission to export select products offer opportunity for the company in defence supplies. However, the tender-based bidding and the long-drawn approval process may bring in lumpiness in revenues from this segment.

Credit challenges

High working capital intensity – PEL's operations are working capital-intensive. Its receivables in the commercial explosives segment are paid within 30 days, while those in the defence segment are paid in 3-6 months. However, PEL's working capital intensity moderated in FY2024 due to advances from customers against certain defence orders, supporting the company's working capital requirement.

Bulk explosives segment vulnerable to volatility in raw material prices – The price of ammonium nitrate - the key raw material used in manufacturing commercial explosives - can be volatile. The extent of the pass-through of input price hikes is limited as the company does have pass-through clauses in the contracts with its clients, exposing PEL's profitability to adverse raw material price movements. The defence segment also inks fixed-price contracts. Any adverse movement in raw material prices can also impact the profitability of the defence segment although the inputs used in this segment tend to be less volatile.

High customer concentration; intense price competition in commercial explosives – The customer concentration of the company is high; the top five customers contributed to ~69%of the revenues in FY2024. Further, the commercial explosives segment remains highly competitive because of the fragmented industry structure, the commoditised nature of the products in the trade segment and the tender-based order procurement with Government entities.

Exposure to regulatory risks - PEL operates in a highly regulated explosives manufacturing industry with high entry barriers. Its operations, therefore, remain vulnerable to any changes in the regulatory framework impacting the industry.

ESG risks

Environmental risk - The industry is exposed to the risk of tightening regulatory norms for production, water management, waste and hazardous material management, given the safety and environment-related concerns associated with explosives. Additionally, some products can face restrictions/substitution over time because of their hazardous nature. Further, in the event of accidents, the litigation risks could be high. While the company has a demonstrated track record of running its operations safely, the nature of the risk weighs on its rating.

Social risk - Companies like PEL need to operate responsibly as it is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand capacity. The company hasn't experienced/reported any incident suggestive of safety lapses at its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Liquidity position: Adequate

PEL's liquidity position is expected to remain adequate amid expectations of healthy cash generation and moderate debt repayments. The cash generation is expected to be healthy with the higher execution of margin-accretive defence orders and advances from customers that will keep the liquidity position adequate. The average utilisation of the fund-based limits in the last 12 months ended March 2024 is 54% against the sanctioned limit and 47% against the drawing power.

Rating sensitivities

Positive factors – ICRA could upgrade PEL's ratings if the company witnesses a sustained improvement in its scale, profitability and liquidity. A specific credit metrics that could lead to an upgrade is RoCE of more than 16% and interest coverage of more than 5 times on a sustained basis.

Negative factors – Pressure on PEL's ratings could arise if the company witnesses weak revenue growth/profit margins. A significant debt-funded capex could also exert pressure on the ratings. A specific credit metric that could lead to a downgrade would be an interest coverage of less than 3.5 times on a sustained basis. Any deterioration in the company's liquidity position could also lead to a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Premier Explosives Limited

About the company

PEL, incorporated in 1980, is primarily involved in the manufacturing and sale of high-energy materials. The bulk explosives, packaged explosives and initiating systems manufactured by PEL find application in the mining, infrastructure and construction industries. The company also diversified into the manufacturing of propellants for missiles and rockets and also strap-on motors for satellite launch vehicles. The company's extended capabilities include products such as chaff, IR flares, explosive bolts, pyro devices, smoke markers, cable cutters, tear gas grenades and other products, including pyrogen igniters for defence and space applications. PEL is also involved in the operation and maintenance (O&M) services of solid propellant plants at the Sriharikota centre of the Indian Space Research Organisation (ISRO).

Key financial indicators (audited)

PEL Consolidated	FY2023	FY2024	Q1 FY2025*
Operating income	202.0	271.7	82.9
PAT	7.0	28.4	7.3
OPBDIT/OI	13.8%	21.6%	18.7%
PAT/OI	3.5%	10.5%	8.8%
Total outside liabilities/Tangible net worth (times)	0.8	1.0	NA
Total debt/OPBDIT (times)	3.0	1.0	NA
Interest coverage (times)	3.1	5.6	4.9

*Source: Company, ICRA Research; *Provisional Results; All ratios as per ICRA's calculations; Amount in Rs. crore ;PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NA- Not available*

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)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				Aug 6, 2024	Dec 22, 2023	Jun 05, 2023	Apr 26, 2022	-
1	**Fund-based – Cash credit**	Long term	45.00	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-
2	**Fund-based limits**	Short term	35.00	**[ICRA]A2**	-	-	-	-
3	**Fund-based – Term loans**	Long term	25.10	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-
4	**Interchangeable**	Long term	(35.00)	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-
5	**Non-fund based**	Short term	283.10	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**	-
6	**Interchangeable**	Short term	(385.00)	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**	**[ICRA]A2**	-
7	**Unallocated limits**	Long term	-	-	**[ICRA]BBB+ (Stable)**	-	**[ICRA]BBB+ (Stable)**	-
8	**Fund-based**	Long term and short term	-	-	-	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	-
9	**Unallocated limits**	Long term and short term	-	-	-	-	**[ICRA]BBB+ (Stable)/ [ICRA]A2**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based – Cash credit	Simple
Short Term – Fund-based - Others	Simple
Long term – Fund-based – Term loans	Simple
Long term – Interchangeable	Simple
Short term - Non-fund based	Very Simple
Short term - Interchangeable	Very Simple

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	45.0	[ICRA]BBB+(Stable)
NA	Fund-based limits	NA	NA	NA	35.0	[ICRA]A2
NA	Term loans – I	Nov 2021	NA	FY2025	1.5	[ICRA]BBB+(Stable)
NA	Term loans – II	Apr 2022	NA	FY2025	3.6	[ICRA]BBB+(Stable)
NA	Term loans – III	Sep 2023	NA	FY2028	20.0	[ICRA]BBB+(Stable)
NA	Cash credit	NA	NA	NA	(35.0)	[ICRA]BBB+(Stable)
NA	Bank guarantee	NA	NA	NA	263.1	[ICRA]A2
NA	Letter of credit	NA	NA	NA	20.0	[ICRA]A2
NA	Letter of credit sublimit	NA	NA	NA	(130.0)	[ICRA]A2
NA	Bank guarantee sublimit	NA	NA	NA	(60.0)	[ICRA]A2
NA	WCDL sublimit	NA	NA	NA	(35.0)	[ICRA]A2
NA	EPC/PCFC/FBD/EBR sublimit	NA	NA	NA	(25.0)	[ICRA]A2
NA	PCFC/PSFC/PCINR	NA	NA	NA	(30.0)	[ICRA]A2
NA	Invoice financing sublimit	NA	NA	NA	(65.0)	[ICRA]A2
NA	SBLC	NA	NA	NA	(40.0)	[ICRA]A2

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	Ownership	Consolidation Approach
Premier Wires Products Limited	80.00%	Full Consolidation
PELNEXT Defence Systems Private Limited	100.00%	Full Consolidation

Source: PEL annual report FY2023

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 12 4454 5322
prashant.vashisht@icraindia.com

Kushal Kumar
+91 40 6939 6408
kushal.kumar@icraindia.com

Sankalpa Mohapatra
+91 40 6939 6409
sankalpa.mohapatra@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches