

January 28, 2025

## Keltech Energies Limited: Rating reaffirmed and assigned for enhanced amount

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loan	21.69	34.65	[ICRA]BBB+ (Stable); reaffirmed/ assigned for enhanced amount
Long term – Fund based – Cash credit	23.65	23.65	[ICRA]BBB+ (Stable); reaffirmed
Long term – Non-fund based – Others	60.00	60.00	[ICRA]BBB+ (Stable); reaffirmed
Long term – Unallocated limits	0.66	2.39	[ICRA]BBB+ (Stable); reaffirmed/ assigned for enhanced amount
<b>Total</b>	<b>106.00</b>	<b>120.69</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of the rating considers Keltech Energies Limited's (KEL) extensive track record, its established market presence in the industrial explosives segment and revenue diversification to related verticals like perlite and explosive accessories that have gained traction over the past few years. The rating also favourably factors in the company's healthy capital structure, characterised by low gearing levels and adequate coverage indicators. Further, the customer concentration risk remains moderate with the top five customers contributing to nearly 22% of the operating income in FY2024.

The rating, however, remains constrained by moderate profitability amid intense competitive pressures, limiting the company's bargaining power. ICRA, however, notes that the operating margin improved in FY2024 and H1 FY2025, supported by changes in the sales mix with increased contribution from high-margin products and lower volatility in key raw material prices. The rating continues to factor in the vulnerability of the company's profitability to fluctuations in the prices of ammonia/ammonium nitrate, the key raw materials, given the limited pricing flexibility.

ICRA also notes that KEL operates in a highly regulated explosive manufacturing industry with high entry barriers. Further, KEL remains exposed to regulatory risks as the regulations closely control the licensing, storage, transportation, and manufacturing of explosives.

The Stable outlook on the rating reflects ICRA's expectation that KEL is likely to sustain its operating metrics. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, which will help expand the product portfolio, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

### Key rating drivers and their description

#### Credit strengths

**Extensive track record of operations** – KEL has an extensive experience of more than four decades in the explosives manufacturing industry. It is also one of the established players in the industry.

**Healthy leverage and coverage metrics** – KEL's capital structure is healthy, characterised by a low gearing of 0.3 times as on September 30, 2024, and adequate coverage indicators with an interest cover of 7.7 times and NCA/total debt of 99.8% in H1 FY2025. However, the coverage metrics are projected to moderate in the medium term due to the debt-funded capex plans for FY2025 and FY2026, though the coverage metrics will continue to be healthy.

**Diversified revenue across various types of explosives, low customer concentration risk** – The company has expanded into verticals such as perlite and explosive accessories, which have gained traction recently. The revenues are now derived from diverse segments, with sales of perlite and accessories accounting for ~20% of the total revenue in FY2024. Further, the operations are geographically diversified with manufacturing facilities at 12 locations across India. Further, the company has low customer concentration risk with the top five clients contributing to nearly 22% of its operating income in FY2024.

### Credit challenges

**Moderate operating margins** - The company's operating profitability remained moderate at 7.2% in FY2024 and 7.4% in H1 FY2025 amid stiff competition, though the profitability has improved from 4.7% in FY2023, supported by changes in the sales mix with increased contribution from high-margin products and lower volatility in key raw material prices. Further, the moderate scale vis-à-vis the industry leaders results in limited bargaining power with the suppliers and lower economies of scale.

**Exposure to regulatory risks** - KEL operates in a highly regulated explosives manufacturing industry with high entry barriers. The key raw material, ammonium nitrate, constitutes a major portion of its total raw material composition. As ammonium nitrate is an explosive, its storage, transportation and usage are regulated by the Petroleum & Explosives Safety Organisation (PESO). Additionally, the regulations control the licensing and manufacturing of explosives. Any unfavourable change in regulations on explosives can have an adverse impact on the financial performance of the entity. The explosives, being hazardous in nature, also expose the company to major risks in case of any accidents, although KEL has had a good track record in handling its products.

**Profitability vulnerable to intense competition and raw material price volatility** - In India, a few companies manufacture ammonium nitrate, and the pricing is exposed to commodity pricing cycles. With the industry remaining intensely competitive, any substantial increase in ammonium nitrate prices can negatively impact the company's profitability.

### Environmental and Social Risk

Safety and environmental health-related concerns associated with explosives expose the industry to the risk of tightening regulatory norms for the production, handling, disposal and transportation of its products. Further, in the event of accidents, the litigation risks and the liabilities for clean-up could be high. While KEL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency-high impact) weighs on its rating.

Further, operating responsibly 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 the capacity. KEL hasn't experienced/reported any incident suggestive of safety lapses at its manufacturing facilities over the last several years and its ability to maintain the manufacturing controls would be a monitorable.

### Liquidity position: Adequate

KEL's liquidity position is adequate, characterised by adequate buffer in its working capital facilities and stable cash accruals. The average fund-based working capital utilisation stood at 65% of the sanctioned fund-based working capital limits for the last 12 months ended October 2024. The term loan repayment obligations are Rs. 5.2 crore in FY2025 and Rs. 3.7 crore in FY2026. The estimated cash flow from operations would be adequate to service the repayment obligations. However, the debt-funded planned capex plan in FY2025 and FY2026 is likely to moderate the liquidity in the near to medium term.

### Rating sensitivities

**Positive factors** – ICRA can upgrade KEL's rating if the company demonstrates a substantial growth in revenues along with improved profitability on a sustained basis.

**Negative factors** – Pressure on KEL’s rating could arise if the turnover or margins decline on a sustained basis, resulting in a deterioration of the coverage indicators. Any increase in the working capital intensity or a large debt-funded capex that stretches the liquidity position can also weigh on the rating. A specific credit metric for downgrade would be total debt/OBIDTA of more than 2.5x on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Chemicals</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of KEL

## About the company

Keltech Energies Limited (KEL), established in 1977, is a part of the Goa-based Chowgule group of companies. The company has its headquarters in Bangalore (Karnataka) and is in the business of manufacturing industrial explosives and expanded perlite. Its manufacturing units are spread across four states, namely Karnataka, Madhya Pradesh, Chhattisgarh and Maharashtra. Besides, the company has silo units in Andhra Pradesh, Karnataka and Madhya Pradesh.

The Memorandum of Family Settlement (MOFS) was signed by the family members of the Chowgule Group on January 11, 2021, where the businesses of the Group were split into two Groups. The MOFS is under execution for implementation with the guidance of Arbitral Tribunal consisting of Retired Judges. On completion of full implementation of MOFS, the Promoters Shareholding of KEL may undergo changes.

## Key financial indicators (audited)

KEL	FY2023	FY2024	H12025*
Operating income	563.4	449.3	230.8
PAT	11.9	19.4	12.3
OPBDIT/OI	4.7%	7.2%	7.4%
PAT/OI	2.1%	4.3%	5.3%
Total outside liabilities/Tangible net worth (times)	1.5	1.2	1.2
Total debt/OPBDIT (times)	1.2	0.8	0.9
Interest coverage (times)	4.9	7.2	0.9

Source: Company, ICRA Research; \* Provisional numbers; All ratios as per ICRA’s calculations; Amount in Rs. crore

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

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Current (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
<b>Term loans</b>	Long term	34.65	28-Jan-2025	[ICRA]BBB+ (Stable)	13-Mar-2024	[ICRA]BBB+ (Stable)	19-Jan-2023	[ICRA]BBB+ (Stable)	07-Oct-2021	[ICRA]BBB+ (Stable)
<b>Cash credit</b>	Long term	23.65	28-Jan-2025	[ICRA]BBB+ (Stable)	13-Mar-2024	[ICRA]BBB+ (Stable)	19-Jan-2023	[ICRA]BBB+ (Stable)	07-Oct-2021	[ICRA]BBB+ (Stable)
<b>Non-fund based facilities</b>	Long term	60.00	28-Jan-2025	[ICRA]BBB+ (Stable)	13-Mar-2024	[ICRA]BBB+ (Stable)	19-Jan-2023	[ICRA]BBB+ (Stable)	07-Oct-2021	[ICRA]BBB+ (Stable)
<b>Unallocated limits</b>	Long term	2.39	28-Jan-2025	[ICRA]BBB+ (Stable)	13-Mar-2024	[ICRA]BBB+ (Stable)	19-Jan-2023	[ICRA]BBB+ (Stable)		

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Term loan	Simple
Long term – Cash credit	Simple
Long term – Non-fund based facilities	Very Simple
Long term – Unallocated limits	Not Applicable

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	Term loan-I	FY2022	NA	FY2026	0.83	[ICRA]BBB+(Stable)
NA	Term loan-II	FY2023	NA	FY2027	2.52	[ICRA]BBB+(Stable)
NA	Term loan-III	FY2023	NA	FY2027	0.97	[ICRA]BBB+(Stable)
NA	Term loan-IV	FY2023	NA	FY2028	0.89	[ICRA]BBB+(Stable)
NA	Term loan-V	FY2022	NA	FY2027	1.44	[ICRA]BBB+(Stable)
NA	Term loan-VI	FY2025	NA	FY2031	28.00	[ICRA]BBB+(Stable)
NA	Long term - Fund-based	NA	NA	NA	23.65	[ICRA]BBB+(Stable)
NA	Long term – Non-fund-based	NA	NA	NA	60.00	[ICRA]BBB+(Stable)
NA	Unallocated limits	NA	NA	NA	2.39	[ICRA]BBB+(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis-Not applicable

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