

November 28, 2023

Economic Explosives Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	50.00	50.00	[ICRA]A1+; reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-I

Rationale

While assigning the credit rating of Economic Explosives Limited (EEL), ICRA has taken a consolidated view of EEL and its parent Solar Industries India Limited (SIIL), given the common management team and significant operational linkages between the entities, besides the strategic importance of EEL for its parent.

The reaffirmation of the rating takes into account the leadership position of SIIL in the industrial explosives industry, supported by a large manufacturing infrastructure with some units in proximity to mines, a backward-integrated facility in India as well as manufacturing units in select countries. In addition to a dominant market position in India, SIIL has developed a reasonable global footprint in recent years with supply to over 75 countries. Exports and overseas sales accounted for 40% of the Group's total revenues in FY2023 and 41% in H1 FY2024.

The rating considers the favourable medium-term demand outlook with increased demand from the end-users in the mining, infrastructure, housing and defence sectors. 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, also presents large growth opportunities for the company. The order book, indicating revenue visibility, is strong at Rs. 3,912 crore as on September 30, 2023. This comprises orders worth Rs. 2,862 crore from Coal India Limited (CIL) and Singareni Collieries Company Limited (SCCL) and defence orders of Rs. 1,050 crore.

SIIL has established relations with reputed clients in the mining and infrastructure industries which ensure repeat orders. Additionally, in the last few years, the company has been manufacturing and supplying products to the defence sector under a technology agreement with the Ministry of Defence, GoI, and has also developed products to meet the indigenisation requirements in defence supplies.

The rating favourably factors in a healthy revenue growth of 75% in FY2023 at Rs. 6,922.5 crore along with expectations of a 20% volume growth in FY2024, even though there has been a sharp decline in realisations in the current fiscal on the back of a decline in raw material prices, mainly ammonium nitrate or AN. The operating profit margin (OPM) remained healthy in the range of 20-22% for FY2023 and H1 FY2024, and the company expects the operating margin to improve further in FY2024 due to operating efficiencies.

The rating, however, remains constrained by the vulnerability of SIIL's margins to any fluctuation in the prices of its key raw material i.e. AN. ICRA notes that the company has a price escalation clause in its agreements with its key clients that inhibits material variability in margins to an extent even as the pass-through may be with a lag. The company's capital structure remained strong with a gearing of 0.4 times as on September 30, 2023, backed by a strong net worth. Notwithstanding the sizeable capex outgo and growing working capital requirements, the expanding operating profits and cash accruals would continue to support healthy debt coverage metrics and a favourable liquidity profile.

The company faces high sector concentration risk with a considerable portion of its revenues derived from the mining sector. Any operational or regulatory impact on the mining sector could, therefore, impact SIIL's revenue and cash generation. However, ICRA has also taken note of the efforts being taken by the Group to increase its presence in other sectors, especially defence, which is expected to result in increased customer and product diversity.

SIIl's profitability remains vulnerable to the volatility in foreign currency exchange rates, given the sizeable revenue contribution from exports and the overseas sector. However, a partial natural hedge from exports, USD billing in select markets and borrowings in local currency for overseas subsidiaries provide some cushion to the company's profitability metrics against the extreme fluctuations in foreign currency exchange rates. ICRA also notes the highly regulated nature of the explosive manufacturing industry with the need for licensing of various products. The company's operations, therefore, remain vulnerable to any changes in the regulatory framework.

The rating also takes note of the ongoing legal proceedings regarding the vacation of Mr. Kailash Chandra Nuwal's office of the executive director of the company. SIIl had filed an appeal with the Supreme Court against an impugned order passed by the National Company Law Appellate Tribunal (NCLAT) on January 5, 2022 and the matter is sub-judice. While the management doesn't anticipate any material impact on the business operations of SIIl on account of the ongoing litigation, this would remain a key monitorable for the rating.

Key rating drivers and their description

Credit strengths

Largest manufacturer of industrial explosives and initiating systems in India with established global presence – The Group has been operational in the field of manufacturing explosives for over 25 years with SIIl being the flagship company of the Solar Group. SIIl is a leading player in the industrial explosives sector with a sizeable market share of around 24% in India and significant manufacturing capacities in the domestic and overseas market. The extensive experience of the promoters and the Group's well-established track record have helped it expand business in over 75 countries with SIIl being the largest exporter of explosives. Exports and overseas sales contributed to 40% of the company's total revenues in FY2023 and 41% in H1 FY2024. The domestic explosives sector accounts for 70-80% of SIIl's total revenues on a consolidated basis, followed by a 20% share of initiating systems and the defence sector. The explosives manufactured by the company find application in the mining, infrastructure and construction industries.

EEL remains strategically important because of its sizeable manufacturing of initiating systems as well as product development for defence application, an area of importance for the Solar Group.

Reputed clientele comprising large players in mining industry provides repeat orders – CIL and its subsidiaries are SIIl's key customers, contributing to ~17-18% of its revenues in the last four years. Notwithstanding its established relations with CIL, the company has diversified its customer profile to include new customers with allocation of mines to private companies. This customer diversification has reduced the contribution of CIL in the revenue mix as a percentage of the total sales, though in absolute terms the revenue has been increasing YoY. Its other major customers are the Ministry of Defence (Government of India), SCCL and infrastructure players. The company's total order book as on September 30, 2023 stood at Rs. 3,912 crore; this comprises orders worth Rs. 2,862 crore from CIL and SCCL which are to be delivered over the next two years, indicating revenue visibility. Apart from that, it has defence orders of Rs. 1,050 crore as on September 30, 2023, comprising Rs. 300-crore export order for ammunitions and loitering munition orders of Rs. 212 crore from the Defence ministry.

Group's healthy revenue and profitability, comfortable capitalisation and coverage metrics; price variation clause with key clients limits moderation in profitability – SIIl's financial profile is characterised by healthy revenue growth of 75% in FY2023 at Rs. 6,922.5 crore, fuelled by a sharp increase in realisations on the back of increased raw material prices (mainly AN), besides strong volume growth. The raw material prices have been declining after March 2023 which has moderated the realisations; however, the company expects a volume growth of 20% in FY2024. The Group has been recording healthy profitability over the years along with comfortable capitalisation and coverage metrics. The consolidated operating margin remained at 20.7% in FY2023 and 21.8% in H1 FY2024. The company expects the operating margin to remain above 22% in FY2024 and FY2025, supported by moderation in raw material prices and healthy volume growth.

ICRA notes that the company has price escalation clauses in its agreements with key clients that inhibit material variability in margins to an extent even as the pass-through may be with a lag. SIIl's gearing, in line with management guidance, continued

to be at 0.4 times as on September 30, 2023. With an interest coverage of 13.3 times and TD/OPBDITA of 0.8 times (annualised) as on September 30, 2023, the company continues to exhibit comfortable leverage and coverage indicators.

SILL is expected to generate stable cash flows in the coming years with a scale-up in its explosives and the defence sector in the domestic and overseas market. Although the company is undertaking debt-funded capex and has witnessed some increase in working capital intensity, the expected revenue growth and a healthy profitability are likely to keep the company's gearing at 0.5 times along with comfortable coverage metrics. The company's debt repayments are expected to remain sizeable over the medium term but growing accruals should allow them to be met timely.

Favourable demand prospects with end-user industries demonstrating growth – The company caters to the demand from end-user industries such as mining, infrastructure and defence. With the Government's rising budgetary allocations towards defence, the demand prospects for the company's products are expected to increase. Also, the Government's emphasis on increased allocation for indigenous sourcing of identified products over the next few years and the company's track record of supplies augur well for the company's prospects in defence supplies.

Credit challenges

Vulnerability of profits to raw material price and forex fluctuations – The key raw material required by SILL in manufacturing explosives is AN, the prices of which are volatile. As the raw material procurement is not entirely order-backed, the company's margins remain vulnerable to any adverse fluctuation in commodity prices. SILL, however, enters into contracts having price escalation clauses with its key customers, which mitigate the risk to an extent and allows it to pass on the price increase, albeit with a lag.

Further, the company remains exposed to the volatility in foreign currency fluctuations. The natural hedge through growing exports and invoicing in US dollars in select markets mitigates the forex risk to an extent. The company has started availing loans in local currency for overseas subsidiaries; however, for new subsidiaries, it mostly depends on US dollar-denominated borrowing from its Mauritius subsidiary. Therefore, some forex risk will persist.

High sector concentration risk with considerable portion of revenues from mining – SILL exhibits high sector concentration risk with a considerable portion of its revenues derived from the mining sector and, thus, the revenues remain vulnerable to the mining activity in the country to an extent. Entities such as CIL and SCCL dominate its revenue profile, highlighting its high dependence on the mining sector. Any operational or regulatory impact on the mining sector could impact SILL's revenue growth. The company's efforts to increase its presence in other sectors, especially defence, are expected to provide some comfort against sector concentration risk, going forward. The management's initiative to diversify the revenue mix is also evident from the revenue dependence on CIL and its subsidiaries reducing to 15% in H1 FY2024 from 26% in FY2016.

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

Lumpiness in defence business with long approval cycles and tender-based awards – Though the company has maintained a dominant position in industrial explosives, the management forayed into the development and supply of defence consumables and ammunitions over the past decade with technical assistance from the Ministry of Defence. The company has recently received a specific work order from the Ministry of Defence, GoI, for the supply of defence products. Although measures such as increased budgetary allocation towards defence, announcement of negative lists of imports to encourage domestic procurement and permitting the export of select products offer huge opportunity for the company, the approval process remains long-drawn. This, coupled with the tender-based bidding process, may bring in lumpiness in revenues from this sector.

Environmental and Social Risks

Environmental Risk— Given the safety and environment-related concerns associated with explosives, the industry is exposed to the risk of tightening regulatory norms for production, water management, waste and hazardous material management. Additionally, some products can face restrictions/substitution over time because of their hazardous nature. Further, in the

event of accidents, 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 Risks— Companies like SIIL 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 the 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

SIIL's liquidity position is adequate, evident from the healthy cash flow from operations which remained in the range of Rs. 500-600 crore, access to cash and liquid investments of ~Rs. 256.3 crore as on September 30, 2023 and buffer from undrawn working capital limits. ICRA also notes SIIL's proposed capex of about Rs. 700 crore in FY2024 towards capacity expansion and modernisation in the domestic and overseas market and the defence sector along with organic and inorganic investments, which will be partly funded through debt. Going forward, a capex of Rs. 600 crore annually is expected over the next two years. The Group's annual repayment also remains sizeable over the medium term which may be met from its rising accruals.

EEL's cash accruals remain healthy which coupled with available cash and liquid investments of Rs. 24.2 crore (as of March 31, 2023) along with cushion available in fund-based limits. The liquidity is further supported by healthy financial profile of the parent company.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The rating may be downgraded if there is a significant decline in revenues or profitability, or if the company undertakes higher-than-anticipated debt-funded capex. The net debt/OPBITDA increasing above 1.5x, or any adverse regulatory measure(s) that weaken(s) the credit profile could also put pressure on the rating.

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 taken consolidated view of SIIL and EEL. ICRA has considered the consolidated financials of SIIL; the company has seven subsidiaries, 18 step-down subsidiaries, one associate and one entity with joint control/significant influence, the details of which are provided in Annexure II

About the company

Incorporated in 1995, Economic Explosives Limited (EEL) is involved in manufacturing of detonators and the complete range of defence products except HMX and RDX. EEL is a wholly owned subsidiary of Solar Industries India Limited.

Key financial indicators (Audited)

EEL Standalone	FY2022	FY2023
Operating income	809.7	859.0
PAT	168.4	176.1
OPBDIT/OI	31.4%	31.7%
PAT/OI	20.8%	20.5%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	0.6	0.7
Interest coverage (times)	24.2	20.7

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

About the Parent

Solar Industries India Limited (SIIL) is the flagship company of the Solar Group, which is promoted and headed by Mr. Satyanarayan Nuwal. The company started with the trading of explosives in 1983 and ventured into explosive manufacturing in 1996. SIIL, along with its subsidiaries, manufactures bulk explosives, packaged explosives and initiating systems, which find application in the mining, infrastructure and construction industries. The Group forayed into the defence sector in 2010 and diversified into the manufacturing of propellants for missiles and rockets, warheads and warhead explosives. At present, there are 32 manufacturing plants across nine states in India, in addition to seven overseas units in Zambia, Ghana, Nigeria, Turkey, South Africa, Tanzania and Indonesia. The company has also established a centre of excellence for life assessment of explosives and ammunition. The Group's head office is in Nagpur (Maharashtra).

Key financial indicators (Audited/Provisional)

SIIL Consolidated	FY2022	FY2023	H1FY24*
Operating income	3947.6	6922.5	3029.7
PAT	455.5	811.2	410.6
OPBDIT/OI	19.9%	20.7%	21.8%
PAT/OI	11.5%	11.7%	13.6%
Total outside liabilities/Tangible net worth (times)	0.8	0.8	0.7
Total debt/OPBDIT (times)	1.1	0.8	0.8
Interest coverage (times)	15.6	15.8	13.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 28, 2023	Nov 28, 2022	Mar 11, 2022	-
1 Commercial paper	Short term	50.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial paper programme	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
Not placed	Commercial Paper	NA	NA	NA	50.0	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiaries		
Economic Explosives Limited	100.00%	Full Consolidation
Emul Tek Private Limited	100.00%	Full Consolidation
Solar Defence Limited ¹	100.00%	Full Consolidation
Solar Defence Systems Limited ¹	100.00%	Full Consolidation
Solar Avionics Limited ¹	100.00%	Full Consolidation
Solar Explochem Limited ¹⁺⁴	100.00%	Full Consolidation
Solar Overseas Mauritius Limited	100.00%	Full Consolidation
Solar Mining Services Pty Limited, South Africa	87.58%	Equity Method
Nigachem Nigeria Limited	55.00%	Equity Method
Solar Overseas Netherlands B.V.	100.00%	Full Consolidation
Solar Explochem Zambia Limited	65.00%	Equity Method
Solar Patlayici Maddeler Sanayi Ve Ticaret Anonim Sirketi	100.00%	Full Consolidation
P.T. Solar Mining Services	100.00%	Full Consolidation
PATSAN Patlayici Maddeler Sanayi Ve Ticaret Anonim Sirketi ²	100.00%	Full Consolidation
Solar Nitro Ghana Limited	90.00%	Equity Method
Solar Madencilik Hizmetleri A.S	100.00%	Full Consolidation
Solar Overseas Netherlands Cooperative U.A	99.99%	Equity Method
Solar Overseas Singapore Pte Ltd	100.00%	Full Consolidation
Solar Industries Africa Limited	100.00%	Full Consolidation
Solar Nitro Zimbabwe (Private) Limited	100.00%	Full Consolidation
Solar Nitro chemicals Limited	65.00%	Equity Method
Solar Mining Services Pty Ltd, Australia	100.00%	Full Consolidation
Solar Mining Services Cote d'Ivoire Limited SARL ¹	100.00%	Full Consolidation
Solar Venture Company Limited	55.00%	Equity Method
Solar Mining Services Burkina Faso SARL	100.00%	Full Consolidation
Solar Mining Services Albania	100.00%	Full Consolidation
Solar Nitro SARL ¹⁺³	85.00%	Equity Method
Associates		
Zmotion Autonomous Private Limited ⁵	45.00%	Equity Method
Entities with joint control or significant influence over the entity		

Company Name	Ownership	Consolidation Approach
ASTRA Resources Pty Limited	49.00%	Equity Method

Source: Annual Report FY2023

Note 1: The entity has not commenced its business operations

Note 2: The entity is under liquidation.

Note 3: The entity was incorporated on December 5, 2022

Note 4: The entity was incorporated on April 29, 2022

Note 5: Associate Company w.e.f. April 6, 2022

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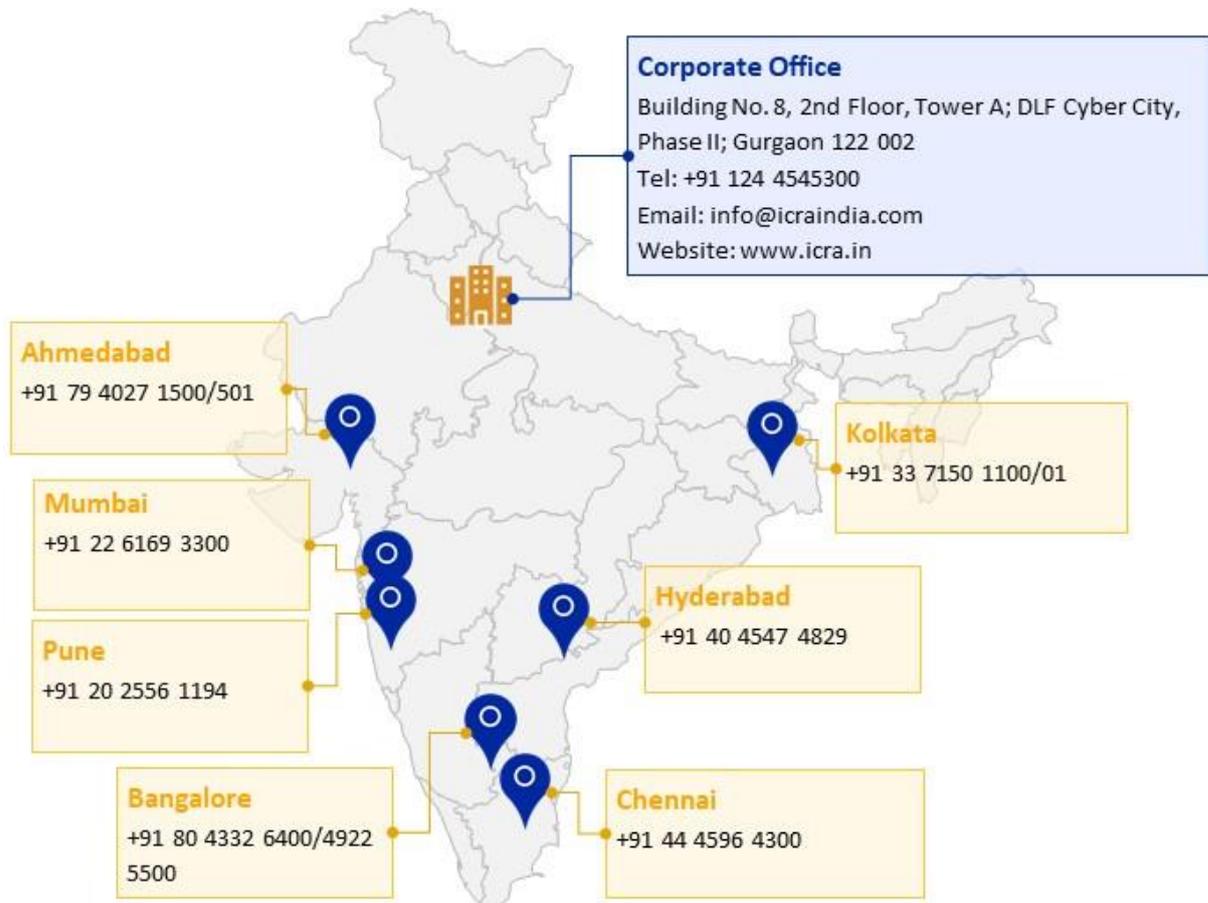
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