

IDL Explosives Limited

Instrument	Amount	Rating Action
Fund Based Limits	Rs. 10.00 crore (reduced from Rs. 15.00 crore)	[ICRA]BBB(SO) (positive) reaffirmed
Non-Fund Based Limits	Rs. 74.00 crore (reduced from Rs. 99.00 crore)	[ICRA]A3+(SO) reaffirmed
Fund Based & Non-Fund Based Limits	Rs. 30.00 crore	[ICRA]BBB(SO) (positive) / [ICRA]A3+(SO) reaffirmed
Fund Based & Non-Fund Based Limits	Rs. 30.00 crore	[ICRA]BBB- (stable) / [ICRA]A3 assigned
Proposed Limits	Rs. 8.00 crore	[ICRA]BBB- (stable) / [ICRA]A3 upgraded

ICRA has reaffirmed the long-term rating of [ICRA]BBB(SO) (pronounced ICRA triple B structured obligation) and the short-term rating of [ICRA]A3+(SO) (pronounced ICRA A three plus structured obligation) to the bank facilities of IDL Explosives Limited (IDL) aggregating to Rs. 114.00 crore¹ (reduced from Rs. 144.00 crore)². The outlook on the long-term rating is Positive. These SO (structured obligation) rated facilities are credit enhanced by unconditional and irrevocable corporate guarantees issued by GOCL Corporation Limited (GOCL).

ICRA has upgraded the standalone long-term rating from [ICRA]BB+ (pronounced ICRA double B plus) to [ICRA]BBB- (pronounced ICRA triple B minus) and the short-term rating from [ICRA]A4+ (pronounced ICRA A four plus) to [ICRA]A3 (pronounced ICRA A three) to the bank facilities and proposed limits of IDL aggregating to Rs. 38.00 crore (enhanced from Rs. 8.00 crore). The outlook on the long-term rating is Stable.

The [ICRA]BBB(SO) (positive) / [ICRA]A3+(SO) ratings take into account the unconditional and irrevocable corporate guarantee issued by GOCL ([ICRA]BBB (positive) / [ICRA]A3+) for the bank facilities of IDL. The ratings address the servicing of the bank lines to happen as per the terms of the underlying sanction letter and the guarantee arrangement and assume that the guarantee will be duly invoked, as per the terms of the underlying sanction letter and guarantee agreements, in case there is a default in payment by the borrower.

The upgrade of the standalone ratings takes into account the healthy scale-up of operations of IDL with 34% revenue growth reported in FY2016 along with the improved order book position (~Rs. 425 crore as on August 1, 2016), mainly from Coal India Limited, which provides revenue visibility for the near term. Aided by the fresh orders, the company's plant is operating at ~90% utilisation levels (against 50%~60% seen in the years prior to FY2016). The company has also received the licence for increasing its manufacturing levels by another 17,000 metric tonnes per annum (MTPA)³ which would further help increase its turnover and cash accruals. The upgrade of the ratings also takes into account the improving net worth position of the company with profitable operations and the reduction in long-term external borrowings with repayment of a sizeable loan amount in FY2016. The ratings also take into account the company's strong parentage, being a strategic part of the Hinduja group, and the company's extensive experience and well-established track record in the bulk explosives business.

The standalone ratings, however, remain constrained by the high dependence on Coal India Limited which accounted for about 50% of the company's sales in FY2016. The ratings are also constrained by the high competition in the explosives business from other established players that has led to modest margins. Margins would continue to remain under pressure owing to the e-reverse auction carried out by Coal India Limited at the time of awarding contracts. The ratings also take into account the exposure of the company's business to the mining industry which has been facing a slowdown in recent years, and to fluctuations in forex rates given the large incidence of imports. The company's exposure to prices in its key raw material, ammonium nitrate, remains low given the price variation clause included in the contracts. Nonetheless, there is an ongoing anti-

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ IDL's current manufacturing capacity is 132,000 MTPA

dumping investigation on imports of ammonium nitrate from countries like Russia and Georgia (from where IDL procures ammonium nitrate) and any imposition of anti-dumping duty will be a rating sensitivity as it could increase the input costs for the company. The company's leveraging levels have improved with profitable operations but continue to remain high (at 10.2 times as on June 30, 2016), though about 34% of the debt has been provided by GOCL through preference shares and inter-corporate deposits, which are likely to remain on the books of IDL over the medium term.

About IDL Explosives Limited

IDL Explosives Limited (IDL), a part of the Hinduja Group, was incorporated in September 2010 to take over the demerged Explosives Undertaking (comprising mainly the bulk explosives business) of GOCL Corporation Limited (GOCL) pursuant to a Scheme of Arrangement, effective October 1, 2010. IDL is a wholly-owned subsidiary of GOCL. Its main manufacturing facility is located at Rourkela in Odisha which manufactures the complete range of commercial slurry and emulsion explosives.

For FY2016, IDL reported Profit after Tax (PAT) of Rs. 6.6 crore on an operating income of Rs. 403.3 crore. For Q1 FY2017, IDL reported PAT of Rs. 3.9 crore on an operating income of Rs. 110.5 crore (provisional).

About GOCL

GOCL, a Hinduja Group company, was formed in January 2002. Post the demerger of its Lubricants business, it has reclassified its business divisions into the following three verticals.

a) Energetics Division is involved in manufacturing along with providing marketing and technical services in industrial explosives, detonators, explosive bonded metal clads and special devices for Defence and Space applications.

b) Mining & Infrastructure Services Division undertakes mining services in coal, iron ore, limestone and bauxite mines. It has taken up contracts in the infrastructure sector such as underground metro railways, elevated highways, industrial structures / buildings etc.

c) Realty Division is involved in development of large properties in Bengaluru and Hyderabad into SEZ, industrial parks and commercial conglomerates.

For FY2016, GOCL reported a Profit after Tax (PAT) of Rs. 17.6 crore on an operating income of Rs. 102.4 crore.

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