

IDL Explosives Limited

January 02, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	10.00	10.00	[ICRA]BBB(SO) (Stable); Reaffirmed
Non-Fund based- LC/BG	74.00	34.00	[ICRA]A3+(SO); Reaffirmed
Fund based/Non-fund based- Working Capital Facilities	30.00	30.00	[ICRA]BBB(SO) (Stable)/ [ICRA]A3+(SO); Reaffirmed
Non-fund based- Working Capital Facilities	30.00	70.00	[ICRA]BBB-/ [ICRA]A3; Reaffirmed and outlook on long-term rating revised from Stable to Positive
Unallocated	8.00	8.00	[ICRA]BBB-/ [ICRA]A3; Reaffirmed and outlook on long-term rating revised from Stable to Positive
Total	152.00	152.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB(SO) (pronounced ICRA triple B structured obligation) and short-term rating of [ICRA]A3+(SO) (pronounced ICRA A three plus structured obligation) outstanding on the fund based limits and non-fund based limits aggregating to Rs. 74.00 crore (revised from Rs. 114.00 crore) of IDL Explosives Limited (IDL)¹. The outlook on the long-term rating is Stable. These SO (structured obligation) rated facilities are credit enhanced by unconditional and irrevocable corporate guarantees issued by the parent, GOCL Corporation Limited (GOCL)². ICRA has also reaffirmed the long-term rating of [ICRA]BBB- and short-term rating of [ICRA]A3 assigned to the bank facilities and proposed limits of IDL aggregating to Rs. 78.00 crore (revised from Rs. 38.00 crore)³. The outlook on the standalone long-term rating has been revised from Stable to Positive.

Rationale

The reaffirmation of the [ICRA]BBB(SO) (Stable)/[ICRA]A3+(SO) ratings takes into account the existing ratings of GOCL ([ICRA]BBB (Stable)/[ICRA]A3+). The ratings are based on the unconditional and irrevocable corporate guarantee issued by GOCL 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.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² The rated instrument does not involve a structured payment mechanism

³ 100 lakh = 1 crore = 10 million

The revision of the outlook to 'Positive' for the standalone long-term rating takes into account the healthy order inflows for the company that would support its revenue growth which, coupled with the equity infusion of Rs. 19.4 crore by GOCL in FY2018 (after redeeming preference shares aggregating to Rs. 24.9 crore), would strengthen the financial profile of the company. The company has also received the licence for increasing its manufacturing levels by another 17,000 metric tonnes per annum (MTPA) which would further help in catering to the increased demands from end-user industries. The ratings also take into account the company's strong parentage and the healthy support from the Hinduja group, as well as 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 and FY2017. The ratings also take into account the exposure of the company's business to the mining industry, 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 (AN), remains low given the price variation clause included in the contracts. While the company's operating profitability witnessed healthy improvement in FY2018, the same is likely to witness some correction following the recent imposition of anti-dumping duty (ADD) on imports of AN from countries like Russia and Georgia (from where IDL procures AN). The ratings are also constrained by the high competition in the explosives business from other established players.

Outlook: Positive

ICRA believes IDL Explosives Limited would report improvement in financial profile driven by healthy order inflows, especially from Coal India Limited (CIL). The outlook may be revised to 'Stable' if the expected improvement in the financial profile does not materialize.

Key rating drivers

Credit strengths

Strong parentage along with support from promoter group – The company being a strategic part of the Hinduja group, enjoys the advantage of strong parentage as well as diversified business experience of the promoter group. The parent company, GOCL, has supported IDL through inter-corporate deposits (Rs. 31.0 crore) whose maturity has been increased in the past. In addition, IDL had issued preference shares of Rs. 24.9 crore to GOCL which was redeemed in FY2018; however, GOCL infused Rs. 19.4 crore of fresh equity in the company which would substantially improve its gearing levels.

Well-established brand and presence in the explosives business – IDL has an extensive experience and well-established track record in the bulk explosives business. The customer profile of the company includes public sector entities like CIL, Singareni Collieries Limited, Tata Steel Limited, SAIL, Hindustan Zinc Limited and others in the civil, infrastructure and defence sectors. IDL has a complete product range comprising slurry based bulk explosives for various applications while the detonators and other explosive accessories are manufactured by GOCL, and are marketed through IDL.

Healthy scale-up of operations driven by increased order inflows - The company's capacity utilisation levels witnessed healthy increment in FY2016 and FY2017 on the back of large-size orders won from CIL. IDL had applied for cumulative capacity expansion and apart from the earlier approval received for 17,000 MTPA expansion in capacity, it has recently been given a license by DIPP (Department of Industrial Policy & Promotion) for increasing its manufacturing capacity at the Ramagundam plant by another 10,000 MTPA (existing capacity of 20,000 MTPA to be augmented to 30,000 MTPA). This additional capacity will provide impetus to cater to the increasing domestic order inflows. Furthermore, IDL is also setting up silos and has automation plans for its existing plants, which are mostly to be funded through internal accruals.

Credit weaknesses

High customer concentration risk towards CIL – The company won large orders from CIL and as a result, the contribution from this entity remained at ~50% of the overall sales for FY2016 and FY2017. CIL is the biggest consumer of explosives in the domestic market and accordingly enjoys significant bargaining power. The current orders are to be won through the reverse bidding auction where-in the ceiling price is fixed by CIL and sellers compete to win the contract by competing on lowest price quotes thereby increasing the competitive pressures.

Demand outlook dependant on the mining industry – On the demand side, the fundamental prospects remain interlinked with expected growth in mining and construction activities in the country. CIL alone is a key driver of the domestic explosives consumption given its large-scale expansion plans. While coal mining activity is expected to be supported by the acute shortage of power, as regards non-coal sector, there are growing opportunities in mining of metals and minerals like iron, bauxite, limestone etc. The growth in the mining industry could, however, be impacted by regulatory and environmental issues that have been seen in the recent past which halted projects in the private sector, while operational issues have affected activities in the public sector.

Exposed to foreign exchange and input price fluctuation risks – The company's profitability is exposed to foreign exchange fluctuations as the key raw material – ammonium nitrate (AN) is largely imported. Explosive grade AN, which constitutes approximately 65-70% of the total raw material costs is sourced from both domestic and global suppliers. AN prices have been volatile in the past, impacting the margins of the players in the explosives business. However, contracts with CIL carry a price variation clause which protects against AN price volatility. However, on August 1, 2017, the Ministry of Commerce & Industry imposed an anti-dumping duty (ADD) on the imports of technical AN from the geographies of Russia, Indonesia, Georgia and Iran following an anti-dumping investigation that could increase the input costs for the company.

High competitive intensity in the business – The company is exposed to the competitive intensity prevalent in the explosives business with the presence of a large number of small unorganised sector players as well as other established organised sector players.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

About the company:

IDL Explosives Limited (IDL) 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 part of the global Hinduja Group and is currently a 100% subsidiary of GOCL.

Key Financial Indicators

	FY2016 (A)	FY2017 (A)	Q1FY2018 (P)
Operating Income (Rs. crore)	403.3	418.7	99.9
PAT (Rs. crore)	6.6	15.6	2.0
OPBDIT/OI (%)	5.8%	8.4%	5.9%
RoCE (%)	16.6%	30.1%	23.1%
Total Debt/TNW (times)	14.0	5.9	3.8
Total Debt/OPBDIT (times)	4.6	2.6	3.1
Interest coverage (times)	2.6	3.9	2.3
NWC/OI (%)	17%	16%	11%

(A): Audited; (P): Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2017			Date & Rating in FY2016
				Jan 2018	Mar 2017	Sep 2016	Jan 2016	Date & Rating in FY2015
1 Cash Credit	Long Term	10.00		[ICRA] BBB(SO) (Stable)	[ICRA] BBB(SO) (Stable)	[ICRA] BBB(SO) (Positive)	[ICRA] BBB(SO) (Positive)	[ICRA] BBB(SO) (Stable)
2 Letter of Credit/ Bank Guarantee	Short Term	34.00		[ICRA] A3+(SO)	[ICRA] A3+(SO)	[ICRA] A3+(SO)	[ICRA] A3+(SO)	[ICRA] A3+(SO)
3 Fund-based/Non-fund based limits	Long/ Short Term	30.00		[ICRA] BBB(SO) (Stable)/ [ICRA] A3+(SO)	[ICRA] BBB(SO) (Stable)/ [ICRA] A3+(SO)	[ICRA] BBB(SO) (Positive)/ [ICRA] A3+(SO)	[ICRA] BBB(SO) (Positive)/ [ICRA] A3+(SO)	[ICRA] BBB(SO) (Stable)/ [ICRA] A3+(SO)
4 Letter of Credit/ Bank Guarantee	Long/ Short Term	70.00		[ICRA]BBB- (Positive)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	-	-
5 Unallocated	Long/ Short Term	8.00		[ICRA] BBB- (Positive)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3	[ICRA]BB+ (Stable)/ [ICRA]A4+	[ICRA]BB (Stable)/ [ICRA]A4

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	10.00	[ICRA]BBB (SO) (Stable)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	34.00	[ICRA]A3+(SO)
NA	Fund-based/Non-fund based limits	NA	NA	NA	30.00	[ICRA]BBB (SO) (Stable)/[ICRA]A3+(SO)
NA	Letter of Credit/ Bank Guarantee	NA	NA	NA	70.00	[ICRA]BBB- (Positive)/[ICRA]A3
NA	Unallocated	NA	NA	NA	8.00	[ICRA]BBB- (Positive)/[ICRA]A3

Source: IDL Explosives Limited

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