

October 07, 2021 <sup>(Revised)</sup>

## Keltech Energies Limited: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based-Term Loans	7.73	19.71	[ICRA]BBB+ (Stable); reaffirmed and assigned to enhanced portion
Fund Based-Long-Term working capital facility	18.00	18.00	[ICRA]BBB+ (Stable); reaffirmed
Non fund Based - Long term	30.00	40.00	[ICRA]BBB+ (Stable); reaffirmed and assigned to enhanced portion
<b>Total</b>	<b>55.73</b>	<b>77.71</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation considers Keltech Energies Limited's (KEL) long track record, established market presence in the industrial explosives segment and revenue diversification from related verticals like perlite and explosive accessories segment, which has gained traction over the past few years. The rating also favourably factors in the comfortable capital structure of the company, characterised by low gearing levels and adequate coverage indicators. The customer concentration risk remains low with the top five customers contributing nearly 21% to its revenues in FY2021. The rating, however, continues to remain constrained by KEL's moderate scale of operations, the highly regulated nature of the explosive industry and the intensely competitive nature of the business, limiting the company's bargaining power. The rating continues to factor in the vulnerability of the company's profitability to fluctuations in prices of ammonia/ammonium nitrate, its key raw materials, given its limited pricing flexibility.

The Stable outlook reflects ICRA's expectation that KEL would continue to benefit from the long experience of the promoters and its established presence in the market.

### Key rating drivers and their description

#### Credit strengths

**Strong 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 financial profile** – KEL's financial profile remains healthy, as reflected by a comfortable capital structure, characterised by a low gearing of 0.3 time as on March 31, 2021, and adequate coverage indicators with an interest cover of 6.5 times and NCA/ Total Debt of 31.2% in FY2021. However, given the sizeable debt-funded capital expenditure envisaged by the company in the near term towards enhancing its explosive accessories capacity and setting up a warehouse facility, its capital structure is likely to witness a marginal moderation.

**Revenues diversified across various types of explosives and explosive accessories, and perlite products** – The company has expanded into new business verticals, namely perlite and explosive accessories segment, which have gained traction recently. The revenues are now derived from diverse segments, with sales in the perlite division driving ~13% of the total revenue in FY2021. Further, the operations are geographically diversified with manufacturing facilities at 12 locations across eight states.

**Low customer concentration** – The company’s customer profile is characterised by low customer concentration risks with the top five customers contributing ~21% to its revenues in FY2021.

### Credit challenges

**Moderate scale of operations amid regulated nature of industry**– The scale of operations remains moderate with an operating income of Rs. 220.2 crore in FY2021. The same results in limited bargaining power with suppliers and lower economies of scale. The company’s revenue was Rs. 71.4 crore in Q1 FY2022 driven by rise in the realisations driven by elevated ammonium nitrate prices. The scale of operations is expected to remain modest vis-à-vis industry participants. The key raw material, ammonium nitrate, constitutes the major portion of its total raw material composition. Since ammonium nitrate is an explosive, its storage, transportation and usage are closely regulated by the Petroleum & Explosives Safety Organisation (PESO). Additionally, the regulations also closely control the licencing and manufacturing of explosives as well. Any unfavourable change in the regulations relating to explosives can have 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 terms of handling its products.

**Profitability exposed 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 profitability of the company.

### Liquidity position: Adequate

KEL’s liquidity position is **adequate**, as characterised by availability of moderate buffer in its working capital facilities and stable cash accruals of Rs. 9-10 crore per annum. The average working capital utilisation stood at 64.0% of the sanctioned limits for the September 2020 to July 2021 period. The company has tied up adequate term loans to fund the upcoming capex (~Rs. 10-12 crore) and the debt repayments remain manageable at around Rs. 3.39 crore vis-à-vis cash generation.

### Rating sensitivities

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

**Negative factors** – Negative pressure on KEL’s rating could arise, for reasons not restricted to—any reduction in turnover or margins on a sustained basis leading to deterioration in coverage indicators; or any increase in working capital intensity or higher than anticipated capex leading to stretched liquidity position. Specific credit metric that could lead to a downgrade is total Debt/OBIDTA more than 3.0x on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in Chemical Industry</a>
Parent/Group Support	Not applicable

Analytical Approach	Comments
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of KEL

## About the company

KEL, established in 1977, is a part of Goa-based Chowgule Group. The company, headquartered in Bangalore, is in the business of manufacturing industrial explosives and expanded perlite. The company's installed manufacturing capacity for explosives is 1.08 lakh MTPA and that for perlite is 8,400 MTPA. Its manufacturing units are spread across Karnataka, Madhya Pradesh and Maharashtra. In addition, the company has silo units in Andhra Pradesh and Chhattisgarh. The company also ventured into the manufacturing of perlite filter aid in February 2017, which is mainly supplied to the vegetable oil units located in South India.

## Key financial indicators (audited)

KEL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	203.4	206.7
PAT (Rs. crore)	4.7	1.9
OPBDIT/OI (%)	7.3%	6.7%
PAT/OI (%)	2.2%	0.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.2
Total Debt/OPBDIT (times)	1.4	1.5
Interest Coverage (times)	6.4	6.5

Note: ICRA estimates, 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 Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				October 7, 2021	December 1, 2020	October 1, 2019	September 28, 2018	
1 Term Loan	Long Term	19.71	10.52	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
2 Fund Based Working Capital facility	Long Term	18.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	
3 Non fund Based facility	Long Term	40.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long-term– Fund Based Working Capital facility	Simple
Long Term-Non fund Based facility	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 analyzing 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, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs Crore)	Current Rating and Outlook
Canara Bank	Term Loan-I	Sep 2019	8.40%	July 2025	4.36	[ICRA]BBB+ (Stable)
Canara Bank	Term Loan-II	Feb 2021	11.55%	Aug 2026	6.40	[ICRA]BBB+ (Stable)
State Bank of India	Term Loan-III	Oct 2020	7.65%	Dec 2025	3.71	[ICRA]BBB+ (Stable)
State Bank of India	Term Loan-IV	Oct 2020	7.65%	March 2026	5.24	[ICRA]BBB+ (Stable)
Canara Bank	Long Term-fund Based	-	-	-	9.90	[ICRA]BBB+ (Stable)
State Bank of India	Long Term-fund Based	-	-	-	8.10	[ICRA]BBB+ (Stable)
Canara Bank	Long Term-non fund Based	-	-	-	22.00	[ICRA]BBB+ (Stable)
State Bank of India	Long Term-non fund Based	-	-	-	18.00	[ICRA]BBB+ (Stable)

Source: Company

### Annexure-2: List of entities considered for consolidated analysis – Not applicable

### Corrigendum

Details of lenders have been updated in Annexure 1

## ANALYST CONTACTS

**Sabyasachi Majumdar**  
+91 124 4545 304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Sai Krishna**  
+91 44 4596 4304  
[sai.krishna@icraindia.com](mailto:sai.krishna@icraindia.com)

**Sankalpa Mohapatra**  
+91 040 40676525  
[Sankalpa.mohapatra@icraindia.com](mailto:Sankalpa.mohapatra@icraindia.com)

**Prashant Vasisht**  
+91 124 4545 322  
[prashant.vasisht@icraindia.com](mailto:prashant.vasisht@icraindia.com)

**Varun Gogia**  
+91 124 4545 373  
[varun.gogia@icraindia.com](mailto:varun.gogia@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.