

January 19, 2023

## 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 loan	19.71	19.71	[ICRA]BBB+(Stable) reaffirmed
Fund based cash credit	18.00	22.00	[ICRA]BBB+(Stable) reaffirmed/assigned
Non fund-based facilities	40.00	53.00	[ICRA]BBB+(Stable); reaffirmed/assigned
Unallocated limits	-	0.17	[ICRA]BBB+(Stable) assigned
<b>Total</b>	<b>77.71</b>	<b>94.88</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 from related verticals like perlite and explosive accessories, which 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 24% and 29% of its operating income in FY2022 and H1 FY2023, respectively.

The rating, however, remains constrained by the moderation in profitability amid the highly regulated nature of the explosives industry and the intensely competitive business, limiting the company's bargaining power. 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.

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

**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 0.4 times as on March 31, 2022, and adequate coverage indicators with an interest cover of 6.1 times and NCA/total debt of 38.8% in FY2022. However, given the incremental working capital requirements due to the increased scale and raw material prices, funded through debt, the leverage and coverage indicators moderated in H1 FY2023. The interest coverage was 3.5 times and NCA/total debt was 28.7% in H1 FY2023. However, with no major debt raising plans incrementally and scheduled repayments for the existing long-term debt, the coverage metrics are projected to improve in the medium term.

**Diversified revenues across various types of explosives with low customer concentration risk** – The company has expanded into business verticals, namely perlite and explosive accessories, which have gained traction recently. The revenues are now derived from diverse segments, with sales in the perlite division driving ~9% of the total revenue in FY2022. Further, the

operations are geographically diversified with manufacturing facilities at 12 locations across India. Further, the company's customer profile is characterised by low customer concentration risks with the top five customers contributing to nearly 24% and 29% of its operating income in FY2022 and H1 FY2023, respectively.

### Credit challenges

**Moderation in operating margins** – The company's operating profitability has moderated with the operating margins declining to 3.5% in H1 FY2023 and 4.4% in FY2022 from 6.1% in FY2021 due to high raw material prices amid the stiff competition. Further, the moderate scale vis-à-vis 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 closely regulated by the Petroleum & Explosives Safety Organisation (PESO). Additionally, the regulations also closely control the licensing and manufacturing of explosives. Any unfavourable change in the 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 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 company's profitability.

### Environmental and social risks

Given the safety and environmental health-related concerns associated with explosives, the industry is exposed 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 capacity. KEL hasn't experienced/reported any incidents suggestive of safety lapses in its manufacturing facilities over the last several years and its ability to maintain the manufacturing controls would be monitorable.

### Liquidity position: Adequate

KEL's liquidity position is adequate, characterised by adequate buffer in its working capital facilities and stable cash accruals of Rs. 12 crore per annum. The average fund-based working capital utilisation stood at 76% of the sanctioned limits for the January 2022 to December 2022 period. The term loan repayment obligations are Rs. 5.6 crore in FY2023 and Rs. 6.3 crore in FY2024. The estimated cash flow from operations would be adequate to service the repayment obligations. Further, no major capex plan in the near to medium term is likely to support the liquidity.

### 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, leading to a deterioration in the coverage indicators. Any increase in the working capital intensity or a higher-than-anticipated capex, leading to a stretched liquidity position, can also weigh on the rating. A specific credit metric that could lead to a downgrade is total debt/OBIDTA of 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 the Chemical Industry</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of KEL

Note (for analyst reference only):

## About the company

KEL, established in 1977, is a part of Goa-based Chowgule Group. The company, headquartered in Bengaluru, is in the business of manufacturing industrial explosives and expanded perlite. The company's installed manufacturing capacity for explosives is 1.53 lakh 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)

	FY2021	FY2022	H1 FY2023*
Operating income	220.2	355.4	254.7
PAT	1.9	6.6	2.8
OPBDIT/OI	6.1%	4.4%	3.5%
PAT/OI	0.9%	1.9%	1.1%
Total outside liabilities/Tangible net worth (times)	1.2	1.5	1.7
Total debt/OPBDIT (times)	1.8	1.9	2.2
Interest coverage (times)	5.9	6.1	3.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore ; All calculations are as per ICRA Research  
Source: Company data, ICRA Research

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

**Any other information:** None

## Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years		
			Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2020	Date & rating in FY2019	Date & rating in FY2018
				Jan 19, 2023	Oct 7, 2021	Dec 1, 2020	Oct 1, 2019
1 Term loan	Long term	19.71	13.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Fund based	Long term	22.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

<b>3</b>	<b>Non-fund based facilities</b>	Long term	53.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
<b>4</b>	<b>Unallocated limits</b>	Long term	0.17	-	[ICRA]BBB+ (Stable)	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Fund based	Simple
Non-fund based	Very Simple
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	FY2020	NA	FY2026	4.36	[ICRA]BBB+(Stable)
NA	Term Loan-II	FY2021	NA	FY2027	6.40	[ICRA]BBB+(Stable)
NA	Term Loan-III	FY2021	NA	FY2026	3.71	[ICRA]BBB+(Stable)
NA	Term Loan-IV	FY2021	NA	FY2026	5.24	[ICRA]BBB+(Stable)
NA	Long Term-fund Based	NA	NA	NA	12.10	[ICRA]BBB+(Stable)
NA	Long Term-fund Based	NA	NA	NA	9.90	[ICRA]BBB+(Stable)
NA	Long Term-non fund Based	NA	NA	NA	39.00	[ICRA]BBB+(Stable)
NA	Long Term-non fund Based	NA	NA	NA	14.00	[ICRA]BBB+(Stable)
NA	Unallocated Limits	NA	NA	NA	0.17	[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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