

July 07, 2020

Premier Explosives Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based -Term Loan	19.72	19.72	[ICRA]A- re-affirmed; outlook revised to Negative from Stable
Long-term Fund based	30.00	30.00	
Long-term Fund based – sub limit	(15.00)	(15.00)	[ICRA]A2+; reaffirmed
Short-term Non-Fund based	200.00	200.00	
Short-term Fund based - sub limit	(105.00)	(105.00)	
Short-term Non-Fund based - sub limit	(170.00)	(170.00)	[ICRA]A- / [ICRA]A2+; outlook revised to Negative from stable
Long-term/ Short Term fund based	10.00	10.00	
Long-term/ Short-term Unallocated	5.00	5.00	
Total	264.72	264.72	

Material Event

On June 29, 2020, Premier Explosives Limited (PEL/ the company) announced its results for the quarter ended on March 31, 2020. The company reported operating income of Rs. 36.4 crore with operating profit (OPBITDA) of Rs. -4.5 crore and Profit after tax (PAT) of Rs. -2.3 crore in Q4FY2020 against operating income of Rs. 62.4 crore with OPDITDA of Rs. 5.1 crore and PAT of Rs 2.9 crore in Q4FY2019. For the full year FY2020, the company reported operating income of Rs. 164.5 crore with OPBITDA of Rs. -5.5 crore and PAT of -10.0 crore against operating income of Rs. 253.0 crore with OPDITDA of Rs. 24.5 crore and PAT of Rs. 11.3 crore in FY2019.

Impact of the Material Event

The ratings remain unchanged at the earlier rating of [ICRA]A- / [ICRA]A2+. However, the outlook on the long-term rating is revised to Negative from Stable.

Rationale

The revision in outlook of Premier Explosives Limited reflects ICRA's expectation that the company's operating performance and financial risk profile will see heightened pressure in the near term, owing to the impact of the Covid-19 pandemic. The operating performance of the company had already witnessed considerable reduction in FY2020 with de-growth in revenue of 35% on account of subdued mining activity and intense competition in the commercial explosives segment, loss of one of its major customers and lower order execution in the defence segment. The profitability was also adversely impacted during the year with operating margin and net margin of -3.3% (PY 9.7%) and -6.1% (PY 4.5%), primarily on account of lower revenues, higher overhead expenses and employee costs and write offs undertaken. Further, PEL's revenue and profitability during Q1 FY2021 are also adversely impacted due to disruption in operations caused by Covid-19 outbreak and the containment measures adopted by the Government. While, ICRA notes that the company has healthy orderbook of Rs. 484 crore as on March 31, 2020 including a large export order in defence segment to Turkey, the pace of recovery in performance in near term remains uncertain given the impact of pandemic, with both new order flow and existing order execution expected to be impacted. ICRA will be monitoring the developments with regards to Company's performance with easing of containment measures.

Although the company debt levels had increased during March 2020 due to higher working capital requirements, the ratings continue to positively factor in PEL's comfortable capital structure with a net gearing¹ of 0.3 times. The ratings continue to favorably factor in the company's marquee clientele comprising of Singareni Collieries Company Limited (SCCL), Bharat Dynamics Limited (BDL) and Indian Space Research Organisation (ISRO) to name a few, with repeat orders from most customers. Also, PEL is one of the two private players supplying explosives for defence sector. However, PEL's customer concentration is high with top five customers contributing to majority of the revenues during FY2020. There has been an increased focus on the defence segment which is likely to improve the margins in the medium to long term. Nonetheless, the company remains exposed to the intense price competition in the commercial explosives segment due to fragmented industry structure and commoditised nature of the products in the trade segment.

ICRA also notes that PEL has opted for the moratorium on principal and interest payments on its term loan facility falling due between March 2020 and August 2020 as permitted by the Reserve Bank of India (RBI) on March 27, 2020. In addition to this, the company has also opted for moratorium on interest payments on its working capital facilities. Any missed payments prior to getting formal approval from lenders prior to the original due date, has not been considered as an instance of default. Non-recognition of default in this case is as per the guidance provided by the SEBI vide its circular dated March 30, 2020.

Key rating drivers and their description

Credit strengths

Reputed client profile in the commercial explosives and defence space; PEL continues to be one of the two private suppliers in defence – The company has been present in the commercial explosives business for about four decades and is one of the well-known players in the space. PEL continues to have marquee clients in the mining, cement and infrastructure industries such as Singareni Collieries Company Limited and Neyveli Lignite Corporation Limited to name a few. Further, PEL is one among the two private players supplying chemicals/explosives for defence and stands to benefit from its technological expertise in the defence space (as can be see through recent order wins).

Healthy order book position skewed towards margin accretive defence business – The company has a healthy order book position of ~Rs. 484 crore as on March 31, 2020. Further, majority of this order book (~85%) is skewed towards the margin accretive defence segment. As a result, PEL's margin are estimated to improve from the current levels in the medium to long-term. However, in the near term, the performance is expected to be constrained due to impact of Covid-19 pandemic.

Comfortable capital structure– PEL's debt levels continue to remain moderate at Rs. 57.7 crore as on March 31, 2020 resulting in comfortable gearing of 0.3 times. The company has been conservative on debt in the past. Despite the significant capex of ~Rs. 71 crore in the past two years – FY2019 and FY2020, primarily for the Katepally greenfield facility, the debt levels had remained low as the company has raised Rs. 70.3 crore of equity through qualified

¹ Net debt is debt minus cash and liquid balances

² 'Relaxation from compliance with certain provisions of the circulars issued under SEBI (Credit Rating Agencies) Regulations, 1999 due to the COVID-19 pandemic and moratorium permitted by RBI'

institutional placements in May 2017. However, due to the weak operating profitability during FY2020, PEL's net debt/OPBITDA had declined to -9.7 times as on March 31, 2020 (0.4 times as on March 31, 2019). In the absence of any debt-funded capex, the company's debt levels are expected to remain comfortable in the near-medium term, although working capital debt is expected to increase to support the weak cash accruals and higher working capital requirements.

Credit challenges

Moderation in financial performance in FY2020, expected to remain subdued in near term due to COVID-19 – The company had witnessed healthy growth in revenues during FY2016-18 supported by healthy growth in both defence and commercial explosives segment. However, PEL had witnessed decline in revenues by 8% and 35% during FY2019 and FY2020, driven by decline across segments. The decline was on account of intense competition, subdued mining activity on account of prolonged monsoons and slowdown in the economy, whereas long gestation period for order execution and completion of major orders, resulted in moderation in the defence segment. The profit margin was also adversely impacted during the year with OPM and NPM of -3.3% (PY 9.7%) and -6.1% (PY 4.5%) due to decline in scale, higher operating overheads and employee expenses and write offs undertaken. Further, PEL's revenue and margins during Q1 FY2021 are expected to be adversely impacted on account of the Covid-19 pandemic and disruption caused by containment measures. Despite healthy order book, the financial performance in near term is expected to be constrained due to the pandemic, with both order execution of existing orders as well as new order flow to be impacted. The improvement in financial performance with easing of containment measures will be monitored.

High working capital intensity – PEL's operations are working capital intensive. PEL's receivables in the commercial explosives segment are paid within 1-2 months while those in defence segment are paid anywhere between 3-6 months. During FY2020, PEL's defence segment contributed to over ~35% of the total sales, where the payment from Government entities vary from three to six months. Although, the working capital intensity had reduced to 26.4% as on March 31, 2019 (36.3% as on March 31, 2018) owing to reduced debtors (from 128 days to 95 days) and higher creditors, the working capital intensity had increased during FY2020 owing to increased debtors (from 95 days to 106 days) along with higher inventory levels (from 60 days to 113 days) during March-end due to issues in dispatching the finished orders on the back of Covid-19 lockdown situation

High customer concentration; intense price competition in the commercial explosives segment– The customer concentration of the company remains high with top five customers contributing majority of the revenues during FY2020. Further, the commercial explosives space remains highly competitive because of the fragmented industry structure, commoditised nature of the products in the trade segment and tender-based order procurement with Government entities. From H2 FY2020, PEL has lost its major customer, Northern Coal Fields, which contributed to ~25% of its revenues during FY2019.

Liquidity position: Adequate

PEL's liquidity is adequate with modest cash and bank balances and moderate buffer in working capital limits as on June 30, 2020. The liquidity profile of the company is also supported by the moratorium opted on principal and interest payments on its term loan facility falling due between March 2020 and August 2020 as permitted by the Reserve Bank of India (RBI) on March 27, 2020. In addition to this, the company has also opted for moratorium on interest payments on its working capital facilities. Further, to shore-up the current liquidity position, the company is also planning to seek approval for interchangeability from non-fund based working limits (NFBWC) to fund-based working capital limits (FBWC) to the extent of Rs. 15.0 crore (one-way interchangeability from FBWC to NFBWC already available) and also planning to

drawdown its undrawn loan of Rs 12.5 crore as a reimbursement for the previously incurred capex, which is also expected to provide further comfort.

Rating sensitivities

Positive triggers – Given the negative outlook, any rating upgrade in the near term is unlikely. ICRA could upgrade PEL’s rating if the company witnesses substantial improvement in scale and operating profit margins of >10% on a sustained basis, without stretching its working capital cycle further and maintaining its low debt levels.

Negative triggers – Negative pressure on PEL’s rating could arise if the company continues to witness weak revenue growth/ profit margins. Significant debt funded could also exert pressure on the ratings. Specific credit metric that could lead to a downgrade is net debt/ OPBITDA > 3.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Premier Explosives Limited

About the company

Incorporated in 1980, PEL is primarily engaged in manufacture and sale of industrial explosives in India to established players like Northern Coalfields Limited (subsidiary of Coal India Limited), Singareni Collieries Company Limited and Neyveli Lignite Corporation Limited. The company also has minimal exports. Further, PEL is also engaged in design, development and manufacture of solid propellants for Indian defence, in addition to operation and maintenance (O&M) services of solid propellant plants at the Sriharikota Centre of Indian Space Research Organization (ISRO) and Solid Fuel Complex at Jagdalpur under the umbrella of Defence Research and Development Organisation (DRDO).

PEL has two subsidiaries - Premier Wire Products Limited (80% stake) and PELNEXT Defence Systems (100% stake). While Premier Wire Products Limited is into manufacturing of Galvanised Iron (GI) wires used in detonators, PELNEXT Defence Systems is established for manufacturing ammunition for Indian defence. PEL has also incorporated a joint venture with the Kalyani Group in April 2015, under the name BF Premier Energy Systems Private Limited for manufacturing defence products; however, the latter two are yet to commence operations.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (OI) (Rs. crore)	253.0	164.5
PAT (Rs. crore)	11.3	-10.0
OPBDIT/OI (%)	9.7%	-3.3%
ROCE (%)	9.4%	-4.5%
Total Debt/TNW (times)	0.1	0.3
Total Debt/OPBDITA (times)	1.1	-10.6
Interest Coverage (times)	4.3	-0.9
DSCR (times)	2.6	-0.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2021)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 07-July-2020	Date & Rating in FY2020 30-Dec-19	Date & Rating in FY2019 12-Nov-18	Date & Rating in FY2018 03-Jan-18	
1	Term Loan 1	7.22	6.54	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
2	Term Loan 2	12.50	-	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
3	Fund based	30.00	-	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
4	Fund based sublimit	(15.00)	-	[ICRA]A-(Negative)	[ICRA]A-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	
5	Fund based	10.00	-	[ICRA]A-(Negative)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	
6	Fund based sublimit	(105.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	
7	Non-Fund based	200.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	
8	Non-Fund based sublimit	(170.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A1	[ICRA]A1	
9	Proposed facilities	5.00	-	[ICRA]A-(Negative)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	
10	Term Loan sublimit	-	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	

Source: PEL

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	Term Loan 1	Sep 2016	-	Sep 2022	7.22	[ICRA]A- (Negative)
NA	Term Loan 2	Dec 2019	-	NA*	12.50	[ICRA]A- (Negative)
NA	Cash Credit	-	-	-	30.00	[ICRA]A- (Negative)
NA	Cash Credit sublimit	-	-	-	(15.00)	[ICRA]A- (Negative)
NA	Bank Guarantee	-	-	-	200.00	[ICRA]A2+
NA	Letter of Credit sublimit	-	-	-	(90.00)	[ICRA]A2+
NA	Bank Guarantee sublimit	-	-	-	(50.00)	[ICRA]A2+
NA	WCDL sublimit	-	-	-	(30.00)	[ICRA]A2+
NA	EPC/ PCFC/ FBD/ BD/ EBR sub limit	-	-	-	(5.00)	[ICRA]A2+
NA	PCFC/ PSFC/ PC – INR/ EBD sub limit	-	-	-	(10.00)	[ICRA]A2+
NA	FCNR sub limit	-	-	-	(15.00)	[ICRA]A2+
NA	Invoice financing sublimit	-	-	-	(45.00)	[ICRA]A2+
NA	SBLC	-	-	-	(30.00)	[ICRA]A2+
NA	Cash Credit/ WCDL	-	-	-	10.00	[ICRA]A- (Negative)/ [ICRA]A2+
NA	Proposed Facilities	-	-	-	5.00	[ICRA]A- (Negative)/ [ICRA]A2+

Source: Premier Explosives Limited; * - Yet to be availed

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Premier Wires Products Limited	80.00%	Full Consolidation
PELNEXT Defence Systems Private Limited	100.00%	Full Consolidation
BF Premier Energy Systems Private Limited	50.00%	Equity Consolidation

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