December 01, 2020

Keltech Energies Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based/TL	7.73	7.73	[ICRA]BBB+ (Stable); reaffirmed
Long Term – Fund Based/CC	18.00	18.00	[ICRA]BBB+ (Stable); reaffirmed
Long Term – Non-fund Based	30.00	30.00	[ICRA]BBB+ (Stable); reaffirmed
Total	**55.73**	**55.73**	

**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-5 customers contributing nearly 25% to its revenues in FY2020. The rating, however, continues to remain constrained by KEL's moderate scale of operations and a decline in its revenues in FY2020 and H1 FY2021 caused by the subdued demand in the explosives segment coupled with the temporary disruption caused by the Covid-19 led nationwide lockdown. The rating considers 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 ricing 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 in the explosives manufacturing industry with presence for more than four decades and is 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 0.4 times as on March 31, 2020 and adequate coverage indicators with an interest cover of 5.7 times and NCA/ Total Debt of 41.5% in FY2020. 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 godown 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 its presence into new business verticals namely perlite and explosive accessories segment, which has gained traction recently. The revenues are now derived from diverse segments, with sales in the perlite division contributing ~13% to the total revenue in FY2020 and H1 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 ~25% to its revenues in FY2020.

Credit challenges

Moderate scale of operations – The scale of operations remains moderate with an operating income of Rs. 215.9 crore in FY2020. The same results in limited bargaining power with suppliers and lower economies of scale. Besides, the company's operating income declined by 4.6% in FY2020 on the back of reduced orders from its key customers in the explosives segment. Its operating income continued to decline in H1 FY2021 owing to the temporary disruption caused by the Covid-19 led nationwide lockdown. Going forward, with the expected revival in demand, its revenues are likely to attain normalcy in the near term.

Explosive industry exposed to regulatory risks; uncertainty over raw material prices and availability – The key raw material, ammonium nitrate, constitutes the major portion of its total raw material composition. Hence, its timely availability at favourable market prices play a crucial role in sustaining margins for the company. Besides, the intense competition restricts its pricing flexibility, exposing its margins to adverse raw material price fluctuations.

Intense price-based competition in the commercial explosives segment – The company is exposed to the competition prevalent in the explosives business with the presence of established organised sector players as well as other small unorganised sector players. Reverse auction-based tenders floated by PSUs had intensified the price competitiveness for players like KEL.

Liquidity position: Adequate

KEL's liquidity position is **adequate**, as characterised by availability of moderate buffer in its working capital facilities and adequate cash balances maintained. The average working capital utilisation stood at 66.0% of the sanctioned limits for the period May 2019 to September 2020.

Rating sensitivities

Positive triggers – ICRA could upgrade KEL's rating if the company demonstrates a sustained growth in its revenues, leading to an enhanced competitive position, and improved cash accruals.

Negative triggers –Pressure on KEL's rating could arise if any reduction in turnover or margins leads to a deterioration in coverage indicators or any increase in working capital intensity or higher-than-anticipated capital expenditure leads to a stretched liquidity position. Specific credit metrics that could lead to a downgrade include total Debt/OPBITDA more than 3.0.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

KEL, established in 1977, is a part of Goa-based Chowgule Group. The company, headquartered in Bangalore (Karnataka), is in the business of manufacturing industrial explosives and expanded perlite. The company's installed 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. Besides, 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)

	FY2019	FY2020
Operating Income (Rs. crore)	226.28	215.88
PAT (Rs. crore)	6.02	4.74
OPBDIT/OI (%)	6.66%	6.41%
PAT/OI (%)	2.66%	2.20%
Total Outside Liabilities/Tangible Net Worth (times)	1.26	1.12
Total Debt/OPBDIT (times)	1.55	1.63
Interest Coverage (times)	5.61	5.66

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding as on March 31, 2020	Rating	FY2020	FY2019	FY2018	
					01-Dec-2020	01-Oct-2019	28-Sep-2018	20-Feb-2018	31-Jul-2017
1	Term Loan	Long Term	7.73	6.32	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-
2	Cash Credit	Long Term	18.00	16.29	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ @	[ICRA]BBB+ (Stable)
3	Bank Guarantee	Long Term	30.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ @	[ICRA]BBB+ (Stable)

Amount in Rs. crore; @placed on rating watch with negative implications

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	March 2017	NA	March 2024	7.73	[ICRA]BBB+ (Stable)
NA	Cash Credit	NA	NA	NA	18.00	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	30.00	[ICRA]BBB+ (Stable)

Source: Keltech Energies Limited

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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.

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