March 31, 2023

CDET Explosive Industries Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based – CC	16.50	22.50	[ICRA]A- (Stable); reaffirmed/assigned
Long term fund based – Term loan	7.00	9.34	[ICRA]A- (Stable) ; reaffirmed/assigned
Short term Non-fund based: Interchangeable	(14.50)	(20.00)	[ICRA]A2+; reaffirmed/assigned
Long term - Unallocated limits	16.50	23.16	[ICRA]A- (Stable); reaffirmed/assigned
Total	**40.00**	**55.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken the consolidated financials of CDET Explosive Industries Private Limited (CDET/the company) and its subsidiary, Raja Explosives Pvt. Ltd. (REPL), due to the corporate guarantee extended by CDET to REPL. Both the entities belong to similar business segments.

The reaffirmation of the ratings considers the healthy improvement in CDET's financial performance, aided by growth in the non-electric detonator segment and a ramp-up in sales of the explosives segment, resulting in a healthy improvement in the company's revenue and profit margin. ICRA also notes the healthy orders received by the company in the explosives segment, which will aid growth, going forward.

The ratings continue to draw comfort from the extensive experience of the company's promoters in the detonators and explosives manufacturing business, its well-established and diversified customer base with presence in both the domestic and international markets, the healthy capital structure and coverage indicators and a strong liquidity position. The ratings also note the high entry barriers in CDET's business with stringent monitoring and stiff licensing requirements, which limit the entry of new players and, thereby, the competition.

The ratings, however, continue to remain constrained by the moderate scale of operations, although there has been growth in the recent period. The vulnerability of the company's profitability to sharp volatility in raw material prices, mainly metals and chemicals, and the rising share of revenues from the lower margin cartridge explosives segment may impact the profitability in the near term. Further, ICRA notes the unsecured advances (Rs 6.34 crore) extended to unrelated parties having relatively low credit profiles. The ratings also continue to be constrained by the regulatory risks associated with the explosives industry. ICRA notes that the industry is prone to accidents, despite compliance with all the mandated safety requirements owing to the nature of its products and the raw materials used.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established presence in manufacturing of detonators and explosives – CDET is promoted by the Rathi family, with over two decades of experience in the detonators and explosives manufacturing industry. The company was established in 1998 and has two group concerns, Commercial Explosives (India) Private Limited (manufacturing safety fuses) and Raja Explosives Private Limited (REPL; manufacturing cartridge explosives) that are engaged in the same business sector.

Favourable financial risk profile – The capital structure of the company (standalone) remained comfortable at 0.08 times as on March 31, 2022 (P.Y. - 0.11 times), supported by moderation in debt and healthy accretion to the net worth. The debt coverage indicators also remained healthy, reflected in an interest cover of 43.5 times in FY2022 (P.Y. – 25.9 times) and TD/OPBDITA of 0.2 times as on March 31, 2022 (P.Y. – 0.4 times). The company's working capital intensity also moderated with NWC/operating income at 20.3% as on March 31, 2022 (24.2% as on March 31, 2021) due to a decrease in the debtor days. The return indicators have remained satisfactory with a return on capital employed (RoCE) of 38.8% in FY2022, supported by healthy profitability. On a consolidated basis also, the capital structure and coverage indicators remained healthy with a gearing of 0.13 times as on March 31, 2022 (P.Y.- 0.15 times), and TD/OPBDITA and interest cover of 0.3 times and 33.4 times, respectively, compared with 0.5 times and 20.1 times, respectively, in the preceding fiscal.

Geographic diversification with presence in domestic and export markets; well-diversified and established customer base – On standalone level**,** the exports of the company constituted 10% of the total sales in FY2022 and 14% in 9M FY2023. The exports are well-diversified across various countries. Its customer concentration risk is low with the top five customers accounting for ~33% of the total sales in 9M FY2023 and 35% in FY2022 and (~31.19% in FY2021), with several repeat orders from reputed customers.

High entry barriers in explosives business, thereby limiting competition – The industrial explosives industry in India is highly regulated by the Government, given the nature of the products, leading to high entry barriers and restrictions on new players and, thereby, any competition. This has benefitted existing players, with the industry at present being dominated by the top 7-8 players.

Credit challenges

Moderate scale of operations at present – The company's scale of operations remains moderate. However, it increased by 51.8% to Rs. 194 crore in FY2022 on a standalone basis from Rs. 127.8 crore in FY2021. The consolidated revenue grew by 60% to Rs. 300.8 crore in FY2022. The scale is expected to improve, going forward, due to incremental revenues from the cartridge explosives and bulk explosive segments, which are in a ramp-up phase.

Vulnerability of profitability to raw materials; changes in product mix with rising share of lower-margin cartridge explosives may moderate margin - The company's major raw materials are pentaerythritol tetranitrate (PETN), ammonium nitrate, aluminium strips, copper wire, galvanised iron (GI) wires, PVC compound, etc. As most of its raw materials are metals and derivatives of oil and gas, the profitability remains vulnerable to the adverse movement in prices. Further, increase in sales from the relatively low-margin explosives segment, going forward, might result in some moderation in CDET's operating profit margins from the current levels.

Unsecured advances to unrelated parties– CDET had advanced Rs. 6.34 crore as on March 31, 2022 (Rs. 9.18 crore as on March 31, 2021) to many unrelated parties with relatively low credit profiles and pandemic-exposed sectors like real estate, which may impact its net worth in the event of default by the counterparties.

Exposed to regulatory risks - The explosives industry is heavily regulated, exposing the company's operations to regulatory risks. The nature of the products and their usages are prone to abuse not only in India, but globally, which makes the industry highly sensitive and vulnerable. The Petroleum and Explosives Safety Organisation under the Government of India, located in Nagpur, Maharashtra, is the licensing authority for overseeing the safety of the hazardous materials produced and marketed by the industry. Given the nature of the products and the hazardous raw materials, the vulnerability to accidents is high, despite compliance with all the mandated safety requirements**.**

Liquidity position: Strong

CDET's liquidity position is strong, supported by healthy cash and liquid investments and adequate buffer in the working capital limits as on March 31, 2022, on a consolidated level. The cash accruals are expected to remain healthy, against which it has only modest repayment obligations of Rs. 1.4 crore in FY2023 and Rs. 3.2 crore in FY2024 along with no major capex plan. The working capital limit utilisation has remained low, with average fund-based utilisation of 1% of sanctioned limits and drawing power, respectively, while the non-fund based utilisation remained at 66% during the 12-month period ended December 2022.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to demonstrate a significant improvement in the scale on a sustained basis while maintaining healthy profitability. An improvement in the working capital intensity will also be a key factor for a higher rating.

Negative factors – Pressure on the ratings could emerge if there is a sustained moderation in revenue and profitability, leading to lower cash accruals. The ratings may also be downgraded if a higher-than-anticipated debt-funded capex or a further stretch in the working capital leads to weakening of the debt coverage metrics or a moderation in liquidity position. An increase in the financial support to subsidiaries/Group concerns or sizeable advances to unrelated parties may also stretch the liquidity position and weigh on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CDET (refer to annexure II)

About the company

CDET explosive Industries Private Limited, incorporated in 1998, is promoted by Mr. Ashok Rathi and family. The company is engaged in the manufacturing of detonators (a device used to trigger explosives) and explosives. CDET has a manufacturing unit in Wardha (Maharashtra) with an installed capacity of ~100 million units for detonators and 30,000 MTPA for cartridge explosives and bulk explosives each. The five main types of detonators manufactured by are plain detonators, instantaneous electric detonators, delay electric detonators and non-electric detonators used primarily in the mining and infrastructure sectors. CDET has a licensed capacity to manufacture 200 million detonators per annum and 60,000 MTPA of explosives.

CDET, on a standalone basis, reported a profit after tax (PAT) of Rs. 33.5 crore on an OI of Rs. 194.0 crore in FY2022 compared to the PAT of Rs. 20.4 crore on an OI of Rs. 127.8 crore in FY2021. On a consolidated basis, it reported a PAT of Rs. 41.4 crore on an OI of Rs. 300.8 crore in FY2022 compared to the PAT of Rs. 20.7 crore on an OI of Rs. 188.0 crore in FY2021.

Key financial indicators (audited)

CDET - Standalone	FY2021	FY2022
Operating income	127.8	194.0
PAT	20.4	33.5
OPBDIT/OI	23.3%	24.3%
PAT/OI	16.0%	17.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.4	0.2
Interest coverage (times)	25.9	43.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

CDET - Consolidated	FY2021	FY2022
Operating income	188.0	300.8
PAT	20.7	41.4
OPBDIT/OI	17.6%	20.6%
PAT/OI	11.0%	13.8%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.5	0.3
Interest coverage (times)	20.1	33.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 31, 2023	Dec 07, 2021	Nov 30, 2020	May 13, 2019
1	**Cash credit**	Long-Term	22.50	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
2	**Term loan**	Long-Term	9.34	8.86	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
3	**Non-fund based interchangeable**	Short-Term	(20.00)	-	**[ICRA]A2+**	**[ICRA]A2+**	-	-
4	**Unallocated**	Long-term	23.16	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund-based cash credit	Simple
Long-term: Fund-based term loan	Simple
Short-term: Interchangeable	Very Simple
Long-term: Unallocated limits	NA

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	Interest Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	22.50	[ICRA]A- (Stable)
NA	**Term loan**	FY18 – FY22	9.40%	FY25 – FY27	9.34	[ICRA]A- (Stable)
NA	**Non-fund based interchangeable**	NA	NA	NA	(20.00)	[ICRA]A2+
NA	**Unallocated limits**	NA	NA	NA	23.16	[ICRA]A- (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

Company Name	CDET Ownership	Consolidation Approach
CDET Explosives Industries Private Limited	100.00% (rated entity)	Full Consolidation
Raja Explosives Private Limited	50.01%	Full Consolidation
Chamundi Power Controls Private Limited	69.39%	Full Consolidation

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About ICRA Limited:

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