December 22, 2023

Premier Explosives 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 – Cash credit	45.00	45.00	[ICRA]BBB+(Stable); reaffirmed
Long term – Fund-based – Term loans	5.10	25.10	[ICRA]BBB+(Stable); reaffirmed/assigned for enhanced amount
Long term – Interchangeable	(35.00)	(35.00)	[ICRA]BBB+(Stable); reaffirmed
Short term - Non-fund based	200.00	253.10	[ICRA]A2; reaffirmed/assigned for enhanced amount
Short term - Interchangeable	(375.00)	(375.00)	[ICRA]A2; reaffirmed
Long term – Unallocated	-	1.90	[ICRA]BBB+(Stable); assigned
Total	**250.10**	**325.10**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings takes into account a healthy order book position of Premier Explosives Limited (PEL) as on September 30, 2023, that provides near to medium-term revenue visibility. The company has an outstanding order book of ~Rs. 1,054 crore as on September 30, 2023. Further, majority of this order book (~84%) is from the margin-accretive defence segment. The ratings also factor in the improvement in the operating margins to 27.4% in H1 FY2024, driven by the rising share of the high-margin defence segment (59% of total revenues in H1 FY2024). PEL's margin is expected to remain healthy in the near to medium term, supported by the execution of margin-accretive defence orders.

The ratings continue to favourably factor in the company's marquee clientele, comprising Singareni Collieries Company Limited (SCCL), Bharat Dynamics Limited (BDL) and Indian Space Research Organisation (ISRO), with repeat orders from many customers. However, PEL's customer concentration is high. The ratings consider the favourable medium-term demand outlook with increased demand from the end-users such as the mining, infrastructure and defence sectors. The Atmanirbhar Bharat Abhiyan of the Government of India (GoI), which is aimed at curtailing import dependence and increasing the sourcing of indigenous defence products, also presents large growth opportunities for the company.

The ratings are constrained by the vulnerability of the commercial explosives segment's profitability to the volatility in raw material prices as the pass-through may be with a lag amid intense pricing competition. The working capital intensity also remains elevated owing to the long receivable cycle of the defence segment, which can stretch up to three to six months. ICRA also notes the highly regulated nature of the explosives manufacturing industry with the need for licensing for various products. Therefore, the company's operations remain vulnerable to any changes in the regulatory framework.

The Stable outlook reflects the expected improvement in the company's financial profile in the medium term on the back of a higher share of defence orders and the established relationship with customers.

Key rating drivers and their description

Credit strengths

Reputed client profile in commercial explosives, defence and aerospace segments – 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 and infrastructure industries, such as Singareni Collieries Company Limited etc. Further, PEL is one of the few private players supplying chemicals/explosives for the defence sector and benefits from its technological expertise in the segment. The company has also entered the Indian Space programme as an approved supplier of PSOM XL motor to ISRO for use in polar satellite launch vehicles (PSLV).

Increasing share of margin-accretive defence business in order book provides revenue visibility – The company has a healthy outstanding order book of ~Rs. 1,054 crore as on September 30, 2023. Majority of this order book (~84%) is from the margin-accretive defence segment. As a result, PEL's margin is estimated to remain healthy in the near to medium term. Going forward, the inflow and execution of defence segment orders is expected to support the improvement in the company's margins and overall cash generation.

Comfortable capital structure – PEL's capital structure continues to be comfortable with a gearing of 0.3 times as on September 30, 2023. The expected revenue growth and healthy profitability is likely to keep the company's gearing at similar levels.

Favourable demand prospects with end-user industries demonstrating growth – The company caters to the demand of end-user industries such as mining, infrastructure, defence and aerospace. The demand prospects for the company's products are expected to increase with the Government's rising budgetary allocation towards defence. Also, the Government's announcement of a negative lists of imports to encourage domestic procurement and permitting the export of select products offer opportunity for the company in defence supplies. However, the tender-based bidding process and the long-drawn approval process may bring in lumpiness in revenues from this segment.

Credit challenges

Bulk explosives segment vulnerable to volatility in raw material prices – The price of ammonium nitrate - the key raw material used in manufacturing commercial explosives - can be volatile. The extent of the pass-through of input price hikes is limited as the company does have pass-through clauses in the contracts with its clients, exposing PEL's profitability to adverse raw material price movements. The defence segment also inks fixed-price contracts. Any adverse movement in raw material prices can also impact the profitability of the defence segment although the inputs used in this segment tend to be less volatile.

High working capital intensity – PEL's operations are working capital-intensive. PEL's receivables in the commercial explosives segment are paid within 30 days, while those in the defence segment are paid in 3-6 months. PEL's working capital intensity increased in FY2023, primarily due to the higher inventory caused by delays in the pre-dispatch inspection of certain completed defence orders. However, in H1 FY2024, advances from customers against certain defence orders supported the company's working capital requirement.

High customer concentration, intense price competition in commercial explosives segment – The customer concentration of the company is high. Further, the commercial explosives segment remains highly competitive because of the fragmented industry structure, commoditised nature of the products in the trade segment and the tender-based order procurement with Government entities.

Exposure to regulatory risks - PEL operates in a highly regulated explosives manufacturing industry with high entry barriers. Its operations, therefore, remain vulnerable to any changes in the regulatory framework impacting the industry.

ESG related comments

Environmental risk - Given the safety and environmental health-related concerns associated with explosives, the industry is exposed to the risk of tightening regulatory norms for production, water management, waste and hazardous material management. Additionally, some products can face restrictions/substitution over time because of their hazardous nature. Further, in the event of accidents, the litigation risks could be high. While the company has a demonstrated track record of running its operations safely, the nature of the risk weighs on its rating.

Social risk - Companies like PEL need to operate responsibly as it 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. The company hasn't experienced/reported any incident suggestive of safety lapses at its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be monitorable.

Liquidity position: Adequate

PEL's liquidity position is expected to remain adequate, going forward, amid expectations of improved cash generation and moderate debt repayments. The cash generation is expected to improve with the higher execution of margin-accretive defence orders and advances from customers that will keep the liquidity position adequate. The average utilisation of the fund-based limits in the last 12 months ended November 2023 is 69% against the sanctioned limit and 62% against the drawing power.

Rating sensitivities

Positive factors – ICRA could upgrade PEL's ratings if the company witnesses a sustained improvement in the scale, profitability and liquidity. A specific credit metrics that could lead to an upgrade is RoCE of more than 16% and interest coverage of more than 5 times on a sustained basis.

Negative factors – Pressure on PEL's ratings could arise if the company witnesses weak revenue growth/profit margins. A significant debt-funded capex could also exert pressure on the ratings. A specific credit metric that could lead to a downgrade would be an interest coverage of less than 3.5 times on a sustained basis. Any deterioration in the company's liquidity position could also lead to a downgrade.

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

PEL, incorporated in 1980, is primarily involved in the manufacturing and sale of high-energy materials. The bulk explosives, packaged explosives and initiating systems manufactured by PEL find application in the mining, infrastructure and construction industries. The company also diversified into the manufacturing of propellants for missiles and rockets and also strap-on-motors for satellite launch vehicles. The extended capabilities of the company include products such as chaff, IR flares, explosive bolts, pyro devices, smoke markers, cable cutters, tear gas grenades and other products, including pyrogen igniters for defence and space applications. PEL is also involved in the operation and maintenance (O&M) services of solid propellant plants at the Sriharikota centre of the Indian Space Research Organisation (ISRO).

Key financial indicators (audited)

PEL Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	199.1	202.0	140.4
PAT	5.2	7.0	19.9
OPBDIT/OI	11.4%	13.8%	27.4%
PAT/OI	2.6%	3.5%	14.2%
Total outside liabilities/Tangible net worth (times)	0.7	0.8	1.1
Total debt/OPBDIT (times)	3.4	3.0	0.7
Interest coverage (times)	3.1	3.1	6.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Dec 22, 2023	Jun 05, 2023	Apr 26, 2022	-	Feb 22, 2021	Jul 07, 2020
1	Fund-based – Cash credit	Long term	45.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)
2	Fund-based – Term loans	Long term	25.10	21.2	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)
3	Interchangeable	Long term	(35.00)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]A- (Negative)
4	Non-fund based	Short term	253.10	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	[ICRA]A2	[ICRA]A2+
5	Interchangeable	Short term	(375.00)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	[ICRA]A2	[ICRA]A2+
6	Unallocated limits	Long term	1.90	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	-
7	Fund-based	Long term and short term	-	-	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+
8	Unallocated limits	Long term and short term	-	-	-	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]A- (Negative)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based – Cash credit	Simple

Long term – Fund-based – Term loans	Simple
Long term – Interchangeable	Simple
Short term - Non-fund based	Very Simple
Short term - Interchangeable	Very Simple
Long term – 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	Cash credit	NA	NA	NA	45.0	[ICRA]BBB+(Stable)
NA	Term loans – I	Nov 2021	NA	FY2025	1.5	[ICRA]BBB+(Stable)
NA	Term loans – II	Apr 2022	NA	FY2025	3.6	[ICRA]BBB+(Stable)
NA	Term loans – III	Sep 2023	NA	FY2028	20.0	[ICRA]BBB+(Stable)
NA	Cash credit	NA	NA	NA	(35.0)	[ICRA]BBB+(Stable)
NA	Bank guarantee	NA	NA	NA	233.1	[ICRA]A2
NA	Letter of credit	NA	NA	NA	20.0	[ICRA]A2
NA	Letter of credit sublimit	NA	NA	NA	(130.0)	[ICRA]A2
NA	Bank guarantee sublimit	NA	NA	NA	(60.0)	[ICRA]A2
NA	WCDL sublimit	NA	NA	NA	(35.0)	[ICRA]A2
NA	EPC/PCFC/FBD/EBR sublimit	NA	NA	NA	(15.0)	[ICRA]A2
NA	PCFC/PSFC/PCINR	NA	NA	NA	(30.0)	[ICRA]A2
NA	Invoice financing sublimit	NA	NA	NA	(65.0)	[ICRA]A2
NA	SBLC	NA	NA	NA	(40.0)	[ICRA]A2
NA	Unallocated limits	NA	NA	NA	1.9	[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

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

*Source: PEL annual report FY2023; *Up to March 2, 2023.*

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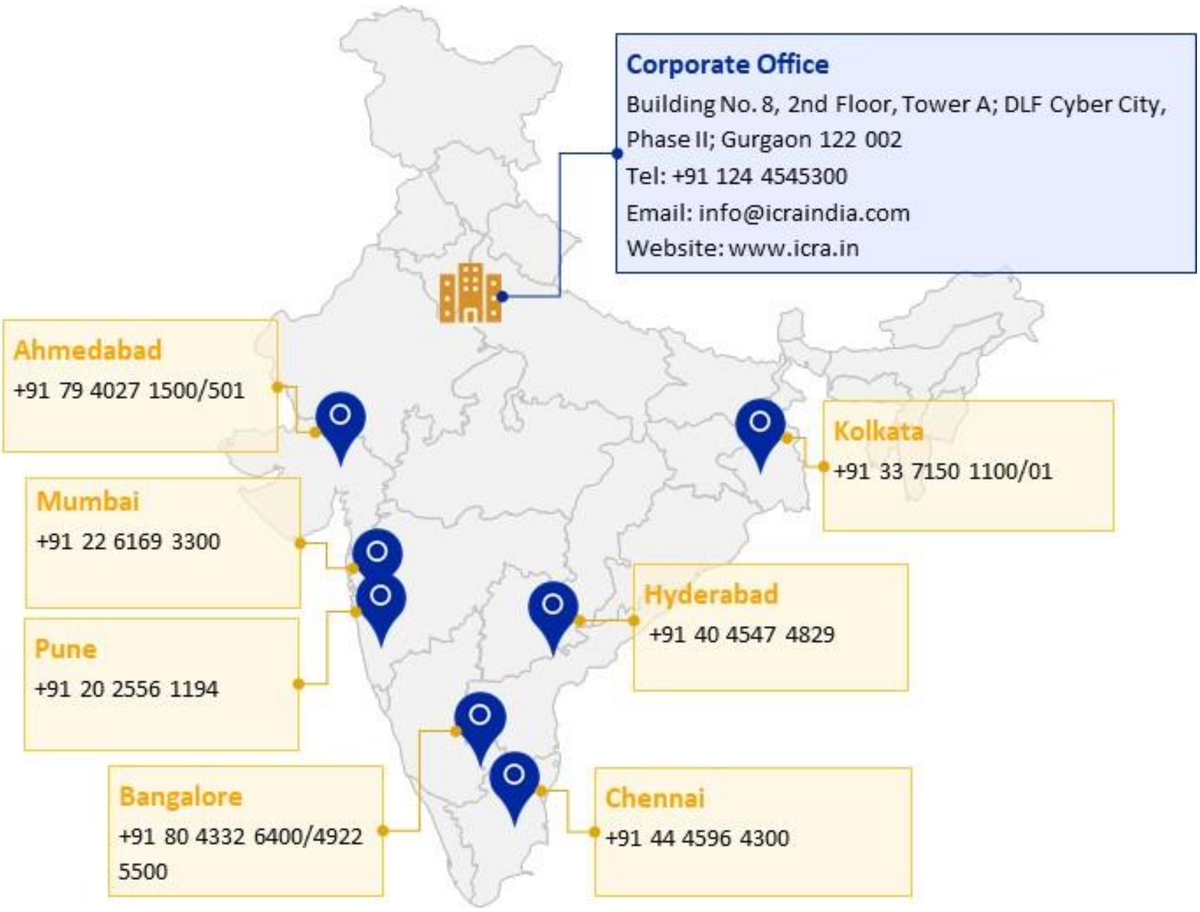

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