ICRA

February 24, 2017

Premier Explosives Limited

Instruments*	Amount rated (Rs. crore)	Rating Action
LT – Term Loans	25.25	Rating revised to [ICRA]A (Stable) from [ICRA]A- (Stable)
LT – Term Loans – sub limit	(6.00)	
LT – Fund based	35.00	
LT – Fund based – sub limit	(10.00)	
LT – Proposed	3.86	
ST – Fund based – sub limit	(6.00)	Rating revised to [ICRA]A1 from [ICRA]A2+
ST – Non Fund based	120.00	
ST – Non Fund based – sub limit	(25.00)	

Rating action

ICRA has revised the ratings outstanding on the Rs. 25.25 crore term loans facilities (enhanced from Rs. 3.38 crore), the Rs. 6.00 crore term loan facilities (sub limit), the Rs. 35.00 crore long-term fund based facilities (enhanced from Rs. 31.00 crore), the Rs.10.00 crore long-term fund based facilities (sub limit) and the Rs.3.86 crore long-term proposed facilities (revised from Rs. 4.73 crore) of Premier Explosives Limited (PEL/the company) from [ICRA]A- (pronounced ICRA A minus) to [ICRA]A (pronounced ICRA A). The outlook on the long-term rating is stable. ICRA has also revised the ratings outstanding on the Rs. 6.00 crore short-term fund based facilities (sub limit, enhanced from Rs.4.00 crore), the Rs.120.00 crore short-term non-fund based facilities (enhanced from Rs. 80.00 crore) and the Rs.25.00 crore short-term non-fund based facilities (sub limit, enhanced from Rs. 20.00 crore) of the company from [ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A1 (pronounced ICRA A one).

Rationale

The revision in ratings reflects the improvement in PEL's financial profile in the last one year. The company's operating income grew by 23.7% and 30.9% respectively in FY2016 and H1 FY2017 aided by significant improvements in the explosive and defence businesses; while its operating margins improved by 130 – 180 bps to 10.0% in FY2016 and 9.4% in H1 FY2017, facilitated by better revenues from high margin segments and cost saving initiatives undertaken. Despite increase in debt levels with scale expansion, the company's capital structure and coverage indicators continue to remain comfortable. Also, PEL's working capital utilization was comfortable and the company's free cash flows were positive in the last one year.

PEL derived over Rs.20.0 crore revenues from supply of solid propellants and other products to defence establishments in H1 FY2017, a growth of over 30% YoY. The company has been an early mover and has significant technological expertise in the segment which takes about 4-5 years for a new player to enter; also, PEL is one of the few private companies present in this space. Increase in defence spend allocations, 'Make in India' initiative and better encouragement of private sector participation have increased opportunities in defence for PEL. ICRA expects the PEL's growth momentum in the defence segment to continue over the medium term. PEL also has healthy order book in the explosive segment and is looking at manufacturing propellants for space launchers. Overall, the company is likely to achieve healthy double-digit growth YoY over the medium term. The anticipated favourable product mix and cost saving initiatives are also expected to aid margin improvement going forward. Despite significant debt funded capex for capacity enhancement and maintenance activities in the pipeline, PEL's debt metrics and liquidity are expected to remain comfortable over the medium term.

Key rating drivers

Credit Strengths

- Established presence of over three decades in the industrial explosives space in India
- Reputed customer profile comprising of large mining and cement players; healthy market share and addition of customers in FY2016 and H1 FY2017
- Early mover advantage/technology expertise in defence supplies which has only one other private player; significant growth in defence in the last one year and expected to continue going forward
- Comfortable financial profile, characterized by strong revenue growth, healthy improvements in operating margins and RoCE, adequate capitalization and liquidity
- Revenue visibility and margin improvements expected over the medium term; debt metrics to also remain comfortable going forward

Credit Weaknesses

- Relatively modest scale of operations and accruals, although significant improvement growth in the recent past
- Highly fragmented industry structure and intense pricing competition in explosives; allocation of fresh licenses/capacity enhancements for factories to increase competition further
- High segment concentration with the mining and construction segments
- High customer concentration with the top five customers contributing to over 50% revenues in FY2016, akin to other industry players
- Significant debt-funded capex in the pipeline over the medium term

Sensitivities

- Slower than anticipated pick up of the defence business or slowdown in the explosives business, impacting revenues and accruals
- Significant support/funding to joint ventures (JVs)
- Incremental capex/investments for defence

Description of key rating drivers highlighted above:

The ratings takes into account the established presence of the company in the industrial explosives space in India, spanning over three decades, and its reputed customer profile, comprising of large miners, cement players and defence establishments in the country. The company continues to have healthy shares of business with these customers, and has had strong growth in business in the last one year – in both explosive and defence segments, as explained above. Also, the company witnessed significant improvements in profitability and continues to have conservative capital structure and adequate liquidity.

The ratings, are however, constrained by the fragmented industry structure and intense pricing competition in the explosives industry, which constitutes over 70% of PEL's revenues; PEL has relatively modest scale of operations and accruals, despite the significant improvement in the last one year. The company also continues to have relatively high customer and segment concentrations – the latter being in the mining and construction segments, although the anticipated growth in the defence business could reduce the segment concentration to an extent over the medium term. The company also has capex plans of over Rs. 30 crore over FY2016-18 and majority of these would be debt funded.

Analytical approach: Not applicable

Links to applicable Criteria

Corporate Credit Rating - A Note on Methodology

http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf

About the Company:

Incorporated in 1980, Premier Explosives Limited (PEL / "the Company") is primarily engaged in manufacture and sale of industrial explosives in India to established players like Coal India Limited, The Singareni Collieries Company Limited and Neyveli Lignite Corporation Limited, to name a few. Exports constitute about 10% of sales. 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 of DRDO at Jagdalpur. Sale of industrial explosives constituted over 70% of PEL's revenues while revenues from defence (including O&M) were around 30% of revenues in H1 FY2017.

PEL has an associate company - Premier Wire Products Limited – where it has 80% stake. This company manufactures Galvanised Iron (GI) wires used in detonators and is relatively modest in scale compared to PEL. PEL has also a) formed a joint venture with the Kalyani Group in April 2015, under the name BF Premier Energy Systems Private Limited; and b) incorporated a wholly owned subsidiary PELNEXT Defence Systems Private Limited – both for manufacturing products for Indian defence; these ventures are yet to commence operations.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month - year & rating	Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014
				Feb 2017	Feb 2016	Jan 2015	Jan 2014
1	LT – Term Loans	Long term	25.25	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	LT – Term Loans – sub limit	Long term	(6.00)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	LT – Fund based	Long term	35.00	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	LT – Fund based – sub limit	Long term	(10.00)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
5	LT – Proposed	Long term	3.86	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
6	ST – Fund based – sub limit	Short term	(6.00)	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
7	ST – Non Fund based	Short term	120.00	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
8	ST – Non Fund based – sub limit	Short term	(25.00)	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

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

Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
LT – Term Loans	-	-	Dec 2017	25.25	[ICRA]A (Stable)
LT – Term Loans – FCNR (B) – DL - sub limit	-	-	-	(6.00)	[ICRA]A (Stable)
LT – Fund based – CC/SLC	-	-	-	35.00	[ICRA]A (Stable)
LT – Fund based - CC – sub limit	-	-	-	(10.00)	[ICRA]A (Stable)
LT – Proposed	-	-	-	3.86	[ICRA]A (Stable)
ST – Fund based – EPC/FBD/PCFC - sub limit				(6.00)	[ICRA]A1
ST – Non Fund based - BG				120.00	[ICRA]A1
ST – Non Fund based – LC - sub limit				(25.00)	[ICRA]A1

Source: Company

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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