The Kolhapur Steel Limited

January 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings [1]	Rating Action
Long Term Bank Facilities	8.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities	2.50 (Reduced from 2.81)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	7.19	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)	Reaffirmed
Total Bank Facilities	**18.19 (Rs. Eighteen Crore and Nineteen Lakhs Only)**		

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings to the bank facilities of The Kolhapur Steel Limited (TKSL) continues to derive strength from its strong promoter group (Kirloskar Group) with Kirloskar Brothers Limited (KBL) holding majority of TKSL's shares, financial support from the parent company in the form of inter-corporate loans and extended corporate guarantee towards TKSL's debt obligations, and capability of TKSL to produce large size sound castings. The ratings, also factor in the management's plan to turn around TKSL's operations through third party consultant and achieve sustainable business going forward.

The rating strengths, however, are constrained by modest scale of operations and continuous losses registered by the company, weak solvency position, and susceptibility to volatility in raw material prices.

The ratings also consider the subdued performance of company during H1FY21 (Unaudited, refers to April 1 to September 30) due to the outbreak of COVID-19.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained improvement in scale of operations and operating profits leading to positive cash accruals to service its debt obligations
- Improvement in interest coverage to 2 times or higher
- Improvement in capital structure with positive net worth and resultant decline in overall gearing to 2 times or lower

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Weakening of linkages with parent company

Detailed description of the key rating drivers

Key Rating Strengths

Strong Parentage of the Kirloskar Brothers Limited (KBL)

TKSL is a subsidiary of KBL (holding 99.74%) which is one of the leading manufacturer and exporter of pumps catering to the requirements of sectors such as oil and gas, water resource management, irrigation, power, distribution and construction. TKSL acts as a backward integrated unit for KBL, from where required castings are procured, on an arm's length basis. TKSL derives around 60%-70% of revenue from Kirloskar Group entities including KBL. In addition, around 50% of the TKSL's installed capacity is reserved for Kirloskar Group. The board of TKSL is chaired by KBL's key personnel, which aids in sound decision making. The management has appointed third party consultant to revive the operations of TKSL.

Financial support from the parent company

TKSL has had reported cash losses in the past and the working capital requirements along with debt obligations are met through funding support from KBL in the form of either equity or inter-corporate loan. In FY20, KBL has infused funds in TKSL in the form of unsecured loans worth Rs.15 crore to fund the losses along with repayment of debt obligations. Further, during FY21, the total estimated amount of fund infusion by KBL in the form of non- cumulative compulsory convertible

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

preference share (CCPS) @ 6 % is Rs.15 crore. Out of which, the parent has already infused Rs.7.50 crore during H1FY21 and is expected to infuse funds balance funds by March 2021. Additionally, KBL has extended corporate guarantee to the bank facilities of TKSL. Going forward, continue financial support from KBL to TKSL will be the key rating monitorable.

Capability to produce large size sound castings

TKSL has been in manufacturing of large size castings (ranging from 300kg to 14000kg in weight) since inception. These castings are mostly used in the segments such as large size pumps for oil extraction, irrigation projects and water treatment projects. Since these pumps are put to test for extreme conditions and operations and are used in harsh climatic conditions, acceptance for these products plays a vital role and it is not easy for customer to change the supplier.

Key Rating Weaknesses

Modest Scale of operations and Operating Losses

The scale of operations is modest over the past five years with below 50% capacity utilization on account modest orders from KBL and other group entities. The TOI was in the range of Rs.30 crore – Rs.46 crore during FY16-FY20. During FY20, the TOI declined by 14% from Rs.36.14 crore in FY19 to Rs.30.94 crore in FY20. The decline was on account of slowdown in end-user industry resulting in lower order intake. Further, with high employee and raw material cost the company registered operating losses in FY20.

In H1FY21 (UA, refers to the period from April 1 to September 30), TKSL has reported decline in TOI of the company as compare to H1FY20 driven by sluggish demand in Q1FY21 on account of the outbreak of COVID – 19. On account of high employee cost the company reported operating losses in H1FY21. The ability of company to improve its scale of operations significantly and registering operating profit will remain the key rating sensitivity.

Weak capital structure and debt coverage metrics

Accumulated losses over the years resulted in negative net worth and subsequently in weak capital structure and debt coverage indicators for the company. Despite the expected fund infusion by KBL, the capital structure is expected to remain weak in the near term.

Susceptibility to volatility in raw material prices

The key raw material of the company – Steel scrap and Ferro alloys, are highly volatile in nature. Furthermore, large portion of orders usually doesn’t have escalation clause built in, which keeps its operating efficiency vulnerable to the movements in raw material prices.

Liquidity: Stretched

TKSL’s liquidity is constrained by cash losses, high working capital limits utilization and modest cash & bank balances. However, the liquidity is supported by financial support of parent, KBL. TKSL incurred cash loss of about Rs.10.28 crore in FY20 and is expected to incur cash losses in FY21 as well. The loss funding and debt obligation is expected to be met by the fund infusion from KBL.

Further, the company relies largely on working capital utilization as indicated by average utilization of working capital limits of nearly 68% for the past 12 months ended September 30, 2020. Operating cycle of the company for FY20 was seen at 16 days as against 31 days in FY19. Over the years, TKSL has been able to manage the operating cycle below 30 days mainly on account of garnering better credit terms with the suppliers, which is partially on account of its strong parentage.

During FY21, TKSL was availed moratorium for repayment of principal portion for term loan from March 2020 to August 2020.

Analytical approach: Standalone

CARE has adopted a standalone approach. However, substantial operational and financials linkages in the form of procurement of key raw material, channel usage, fund infusion and corporate guarantee extended by the parent –KBL, have been factored in while analyzing the company. TKSL is strategically important for the operations of KBL as part of its backward integration.

Applicable Criteria

Criteria on assigning ‘outlook’ and ‘credit watch’
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE’s methodology for manufacturing companies
Financial Ratios-Non Financial Sector
Rating Methodology: Consolidation

[Rating Methodology: Notching by factoring linkages in Ratings](#)
[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

TKSL is the subsidiary of Kirloskar Brothers Limited (KBL, holding 99.74% stake). TKSL which has its manufacturing facility located at Shiroli, Kolhapur (Maharashtra), was established on May 26, 1965 by Agashe family. It was taken over by KBL in September 2007 and is currently managed by C M Mate (Chairman) and Ravindra Samant (Managing Director) who also hold key positions in the parent company, KBL. TKSL is engaged in the manufacturing mild steel and stainless steel castings which are used in various end user sectors like pumps, valves, turbines (steam and hydro), marine, rubber machinery, mining and general engineering. TKSL has a total production capacity of 6000 MTPA producing castings weighing in range of 300kg to 14000 kg (single piece).

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	36.14	30.94
PBILDT	-5.48	-9.12
PAT	-7.62	-11.57
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	NM

A: Audited, NM: Not Meaningful.

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working capital Term Loan	-	-	January 2023	2.50	CARE BBB-; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	5.00	CARE BBB-; Stable / CARE A3
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	2.19	CARE BBB-; Stable / CARE A3
Fund-based-Long Term	-	-	Proposed	8.50	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Working capital Term Loan	LT	2.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (11-Mar-20)	-	-
2.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	5.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (11-Mar-20)	-	-
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	2.19	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (11-Mar-20)	-	-
4.	Fund-based-Long Term	LT	8.50	CARE BBB-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Adverse deviation in any of the following ratio: a. Total Debt to EBIDTA less than or equal to 6x b. DSCR of at least 1.5x.	Will attract default interest at the rate of 0.25% p.a. over and above the Interest rate.
B. Non-financial covenants	
I. Prepayment charges	Prepayment attracts prepayment penalty of 1% on the amount prepaid.
II. Non Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 15th of consequent month, delay in submission will attract 1% penal interest over and above regular interest..
III. Non submission of Financial Statement of previous year within 7 months.	Will attract 1% penal interest over and above regular interest.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Working capital Term Loan	Simple
2.	Fund-based-Long Term	Simple
3.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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