

Kirloskar Electric Company Limited

April 02, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|------------------|---------------------|---------------|
| Long-term bank facilities | 38.00 | CARE B+; Stable | Reaffirmed |
| Short-term bank facilities | 77.63 | CARE A4 | Reaffirmed |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Kirloskar Electric Company Limited (KECL) continue to factor in improvement in the scale of operations of the company translating into generation of positive profit before interest, lease rentals, depreciation and taxation (PBILDT) margins from Q1FY23 onwards. KECL's ability to maintain satisfactory orderbook position and to remain profitable will continue to be key to its credit profile. CARE Ratings Limited (CARE Ratings) also takes note of the expected sale of the company's 31-acre land in Hubballi in the near term, which can help the company in reducing its debt levels while improving its liquidity. While ratings continue to factor in more than seven decades of the company's track record in the industry, they are constrained by its historical losses, which led to erosion of its net worth, full utilisation of its working capital limits with instances of overdrawing due to interest debit during past one year, low bargaining power, and exposure to volatility in the raw material prices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly reducing external borrowings post sale of Hubli land leading to debt/profit before interest, depreciation and tax (PBIDT) of <3.0x.
- PBIDT margins above 5% while turning profitable at net basis on sustained basis.
- Improving liquidity.

Negative factors

- PBIDT level losses leading to the company's deteriorating liquidity.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation of sustainability of the scale of operations and profitability levels by the company in the near to medium term and further reduction in the debt levels by the company post the sale of Hubballi land.

Detailed description of the key rating drivers:

Key weakness

Negative net worth

The company's net worth remained at negative ₹231 crore as of March 2023 (negative ₹257 crore as of March 2022) due to losses, though showing improvement. Improvement is primarily due to the profit on sale of Hubballi land in March 2022 that added to liquidity and the company continuously registering EBITDA profits since Q1FY23, thereby adding accruals to net worth. Ramp-up in the scale of operations would be key for improvement in the company's financial risk profile.

High competitive market segment

The competition in electrical equipment industry has been increasing due to factors such as diversion of export-focused production capacity to cater to the domestic market on the back of upheaval in the advanced economies, import of cheaper equipment, especially from China and large number of smaller unorganised players in the industry. The stiff competition restricts the pricing flexibility and the product prices and in turn the company's profitability margins which continue to be under pressure.

Exposure to volatility in raw material prices

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The major raw materials used by KECL are copper, iron, and steel, whose prices are highly volatile due to their global linkages. With raw material costs accounting for more than 70% of overall cost of production, the company's ability to pass on the price rise to its customers plays a crucial role in the overall profitability.

Key strengths

Improving the company's credit profile

In March 2022, the company had monetised 29.5 acres of land in Hubballi, Karnataka, from which it gained a profit of ₹98.20 crore, and a non-core asset at Hyderabad, from which it gained a profit of ₹2.98 crore. Majority of the same was utilised by the company towards clearing all its term loan dues to the lenders, and balance towards the company's working capital requirements. The company is further going to sell an additional 31 acres of land in Hubballi, which is expected to happen in FY25 as against envisaged earlier of FY24, the proceeds of which are expected to be utilised for reducing the remaining debt levels and towards the company's working capital requirements. The same would lead to saving in interest costs, reduction in dependence on customer advances for execution of its orders, and thereby higher execution of orders and improvement in the scale of operations and profitability.

Improvement in the scale of operations and profitability

With improvement in liquidity post monetisation of the non-core assets by the company in Q4FY22, it could expedite execution of its pending orders which translated into improvement in the company's scale of operations in FY23, with it registering 41% growth in the revenues to ₹474 crore from ₹334 crore in FY22, while turning profitable led by higher execution of orders. The company has turned profitable since Q1FY23 and has achieved profitability margin of 7.63% in FY23 as against PBILDT losses for the past 9 years from FY14 till FY22. CARE Ratings expects the same to be sustainable with envisaged improvement in the company's liquidity post monetisation of the additional 31 acres land in Hubballi in the near term, which in turn can help the company in reducing its dependency on customer advances for execution of orders, thereby sustaining its scale of operations.

Satisfactory orderbook position

The company's orderbook position continues to be satisfactory and stood at ₹289 crore as on February 1, 2024 (₹244 crore as on December 25, 2022). Also, due to established relationship with its customers, the company receives repeat orders, hence, providing stability to its revenues.

Expertise in power industry with established brand image

Established in 1946, KECL has a very long track record of operation of over 70 years in the field of motors and transformers. KECL has been managed by highly experienced professionals headed by Vijay Kirloskar (Chairman), who has more than 30 years of experience in the related field. KECL's products find application in wide range of industries such as power generation, mining, textiles, utilities, and paper among others, hence, having reputed clientele across the mentioned industries.

Liquidity: Stretched

The company's liquidity is stretched due to the historical losses and its dependence on customer advances and stretching of creditor payments for order's execution thereby limiting its bargaining power. WC limits are nearly fully utilised with multiple instances of overdrawals in past one year though are being regularised in less than 7 days. As on March 31, 2023, the company's cash and bank balances stood at ₹16 crore. Considering that the company plans to sell some of its non-core assets in the near term, its liquidity is expected to improve.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|---------------|----------------------|----------------------------|
| Industrials | Capital goods | Electrical equipment | Other electrical equipment |

Headquartered in Bengaluru, KECL was incorporated in 1946. In its past seven decades of existence, the company has established itself as one of the major players in the domestic electric equipment industry. KECL is engaged in manufacturing AC motors, DC motors, transformers, switchgear, and electronics through six manufacturing units. The company's day-to-day operations are

looked after by Vijay Kirloskar (Chairman), who is adequately supported by a group of professionals having rich business experience.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | December 31, 2023 (UA) |
|----------------------------|--------------------|--------------------|------------------------|
| Total operating income | 334.67 | 473.55 | 388 |
| PBILDT | -15.56 | 36.15 | 25 |
| PAT | 58.16 | 25.88 | 9 |
| Overall gearing (times) | NM | NM | NM |
| Interest coverage (times) | NM | 1.69 | 1.38 |

A: Audited; UA: Unaudited; NM: Not Meaningful; Note: 'these are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|-----------------------------|------|------------------|-----------------|---------------|-----------------------------|---|
| Fund-based - LT-Cash credit | - | - | - | - | 38.00 | CARE B+; Stable |
| Non-fund-based - ST-BG/LC | - | - | - | - | 77.63 | CARE A4 |

Annexure-2: Rating history for last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|-----------------|---|---|--|---|
| | | Type* | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Fund-based - LT-Cash credit | LT | 38.00 | CARE B+; Stable | - | 1)CARE B+; Stable (28-Mar-23) | 1)CARE C (25-Mar-22) 2)CARE D (05-Apr-21) | 1)CARE D (16-Apr-20) |
| 2 | Non-fund-based - ST-BG/LC | ST | 77.63 | CARE A4 | - | 1)CARE A4 (28-Mar-23) | 1)CARE A4 (25-Mar-22) 2)CARE D | 1)CARE D (16-Apr-20) |

| | | | | | | | | |
|---|-------------------------------|----|---|---|---|----------------------------|---|---------------------------------|
| | | | | | | | (05-Apr-21) | |
| 3 | Fixed deposit | LT | - | - | - | - | 1)Withdrawn (25-Mar-22) 2)CARE D (FD) (05-Apr-21) | 1)CARE D (FD) (16-Apr-20) |
| 4 | Fund-based - LT- Term loan | LT | - | - | - | 1)Withdrawn (28-Mar-23) | 1)CARE D (25-Mar-22) 2)CARE D (05-Apr-21) | 1)CARE D (16-Apr-20) |

*LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|-----------------------------|------------------|
| 1 | Fund-based - LT-Cash credit | Simple |
| 2 | Non-fund-based - ST-BG/LC | Simple |

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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