Kirloskar Electric Company Limited

March 25, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (1)	46.79 (Enhanced from 37.50)	CARE D (Single D)	Reaffirmed
Long Term Bank Facilities (2)	49.83	CARE C (Single C)	Revised from CARE D (Single D)
Short Term Bank Facilities (3)	77.63	CARE A4 (A Four)	Revised from CARE D (Single D)
Total Bank Facilities	**174.25 (Rs. One Hundred Seventy-Four Crore and Twenty-Five Lakhs Only)**		
Fixed Deposit@	-	-	Withdrawn

Details of instruments/facilities in Annexure-1

@Rating is withdrawn as the rating for the instrument has been in 'D' category for three consecutive years.

Detailed Rationale & Key Rating Drivers

The revision in ratings of facilities of Kirloskar Electric Company Limited (KECL) mentioned in (2) and (3) takes into account regularization of these facilities by the company with no overdrawals in cash credit accounts beyond 30 days in the past six months ending February 2022, and no letter of credit devolvements/Bank guarantee invocations in the past 1 year ending February 2022 as confirmed by its lenders. However, there has been continuing delays in term loan repayments and hence facility (1) continues to remain at CARE D. CARE also takes note of ongoing monetization of company's 32 acres of land at Hubli for a consideration of Rs.100 crore, part proceeds of the same are expected to be used by the company to repay its term loan dues to the lenders, Provident Fund (PF) overdues and the balance amount for working capital requirement. The ratings continue to factor in weak financial risk profile of the company marked by continuing cash losses, poor liquidity profile, exposure to volatility in raw material prices and low bargaining power due to heavy competition in the electrical equipment industry.

Rating Sensitivities

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

- Delay free track record for 3 consecutive months for term loans while turning EBIDTA positive.

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

- Continuing PBIDTA level losses leading to further deterioration in liquidity profile of the company.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile and continuing delays in term loans: During FY21, Operating income of the company declined by 11.8% to Rs.280 Cr in FY21 from Rs.318 Cr in FY20 due to non-operation of company's plants for major part of Q1FY21. The same along with high fixed costs of the company led to continuing PBIDT losses.

During 9MFY22, the company's TOI grew by 21% to Rs.232.3 crore [9MFY21: 191.5 crore] sustaining the impact of second wave of Covid19 wherein company has faced operational issues with low availability of industrial gas, however had to incur high maintenance costs which led to continuing PBIDT losses. Company's liquidity position continues to remain poor and there are continuing delays in its term loan accounts.

Low bargaining power: The competition in electrical equipment industry has been increasing due to factors like diversion of export focused production capacity to cater to domestic market on the back of upheaval in the advanced economies, import of cheaper equipment, especially from China and large number of smaller unorganized players in the industry. The stiff competition restricts the pricing flexibility and the prices of the products and in turn profitability margins of the company which continue to be under pressure.

Exposure to volatility in raw material prices: The major raw materials used for KECL are copper, iron and steel and the prices are highly volatile due to their global linkages. With raw material costs accounting for more than 75% of overall cost of production, ability of the company to pass on the price rise to its customers plays a crucial role in the overall profitability.

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

Key Rating Strengths

Regularization of the working capital limits by the company and expected repayment of term loan dues through monetization of assets

Under the restructuring program, some of the assets of the company were monetized during FY19 and FY20 to pay off part of the overdues. However, company could not dispose any assets in FY21 amid Covid-19. Company has currently regularized its working capital limits and the outstanding dues in term loans are expected to be repaid in the near term through monetization of the company's 32-acre land at Hubli. Company is final stages of the mentioned sale of land and is expected to get Rs.100 crore, part of which would be used by the company to repay its term loan dues to the lenders and PF overdues, and the balance amount would be used for working capital needs of the company.

Liquidity: Poor

The liquidity position of the company is poor considering the operations are making cash losses and there are ongoing delays in term loan facilities. The company is managing working capital by stretching the creditor payments. Company's working capital limits are near fully utilized in the past 6 months ending February 2022.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the Company

Kirloskar Electric Company Limited (KECL) headquartered in Bangalore, 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 of AC Motors, DC Motors, Transformers, Switchgear and Electronics through eight manufacturing units. The day to day operations of the company are looked after by Mr. Vijay Kirloskar (Chairman), who is adequately supported by a group of professionals having rich business experience.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	317.81	280.34	232.34
PBILDT	-51.60	-14.75	-12.53
PAT	-85.98	-107.86	-36.84
Overall gearing (times)	NM	NM	NA
Interest coverage (times)	NM	NM	NM

A: Audited; Prov.: Provisional; NM: Not meaningful, NA: Not available.

Status of non-cooperation with previous CRA: Not Applicable

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	49.83	CARE C
Non-fund-based - ST-BG/LC	-	-	-	-	77.63	CARE A4
Fund-based - LT-Term Loan	-	-	-	March 31, 2024	46.79	CARE D
Fixed Deposit	-	-	-	-	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	49.83	CARE C	1)CARE D (05-Apr-21)	1)CARE D (16-Apr-20)	1)CARE D (02-Apr-19)	1)CARE D (03-Apr-18)
2	Non-fund-based - ST-BG/LC	ST	77.63	CARE A4	1)CARE D (05-Apr-21)	1)CARE D (16-Apr-20)	1)CARE D (02-Apr-19)	1)CARE D (03-Apr-18)
3	Fixed Deposit	LT	-	-	1)CARE D (FD) (05-Apr-21)	1)CARE D (FD) (16-Apr-20)	1)CARE D (FD) (02-Apr-19)	1)CARE D (FD) (03-Apr-18)
4	Fund-based - LT-Term Loan	LT	46.79	CARE D	1)CARE D (05-Apr-21)	1)CARE D (16-Apr-20)	1)CARE D (02-Apr-19)	1)CARE D (03-Apr-18)

LT/ST: Long Term / Short Term

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

CC, BG & LC	Detailed explanation
A. Financial covenants	Bench mark for annual testing of financials: DSCR: 2.05, Interest Coverage ratio: 2.45, FACR: 0.53, Debt/EBITDA: 2.81
B. Non financial covenants	Company should submit to the bank such financial statements as may be required by the bank from time to time in addition to the set of such statements to be furnished by the borrower to the bank as on date of publication of the borrower's annual accounts.

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

Sr. No	Name of instrument	Complexity level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

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