

## KIOCL Limited

February 15, 2017

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	1.00	CARE AA; Stable [Double A; Outlook: Stable]	Assigned
Long-term/Short-term Bank Facilities	369.00	CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Assigned
<b>Total Facilities</b>	<b>370.00</b> <b>(Rs. Three hundred seventy crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale

The ratings assigned to the bank facilities of KIOCL Limited (KIOCL) derive strength from complete ownership of Govt of India (GOI), its debt free status and robust liquidity position as exhibited in healthy cash balance which will enable company deploy funds for envisaged investment/capex plans and also finance the operating losses. The ratings also factor in the reservation of iron-ore block at Devadari for captive mining though the same may take another two years to operationalize, efforts undertaken to improve capacity utilization of pellet plant through toll manufacturing and company's strong expertise in setting up and operating pellet plants.

These rating strengths are offset by lack of secure captive mine at present and resultant high logistic cost, weak operational performance marked by low capacity utilization attributable to challenging pellet market scenario, susceptibility of operating margins to volatility in raw material and finished good prices, foreign exchange fluctuation risk and on-going dispute with railways over levy of distance based charges.

Going forward, operational turnaround of its pellet plant would be the key rating sensitivity. At the same time, any debt funded capex and significant losses from operations may weigh negatively on the credit profile of the company.

### Detailed description of the key rating drivers

KIOCL is a wholly owned company of GOI with 99% shareholding as on March 31, 2016. The company enjoys robust liquidity position with healthy cash balance of Rs.1872 crore and debt free status as on March 31, 2016. Company lacks a secure captive mine since the closure of Kudremukh mine in 2005. However, Government of Karnataka vide notification dated January 23, 2017 has reserved an iron-ore block at Devadari for captive use. The same is expected to operationalize in about two year time.

Company currently procures its iron ore from NMDC mines in Chhattisgarh, exposing it to high logistics cost. This along with non-remunerative pellet prices resulting from challenging market for pellet both domestically and internationally has resulted in weak company's operational performance with declining capacity utilisation.

Company's operating loss continues over the past several years, but has profits reported as a result of interest earned from sizeable cash balance. However, on account of higher operating losses (Rs.272 crore) company reported cash loss of Rs.60.4 crore in FY16.

Company has a significant contingent liability on account of on-going dispute with Railways over levy of distance based charges (DBC) on transport of iron-ore fines, which accounts for 20% of Tangible Network as on March 31, 2016.

**Analytical approach:** Standalone

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Applicable Criteria**[Criteria on assigning Outlook to Credit Ratings](#)[CARE's Policy on Default Recognition](#)[CARE's methodology for manufacturing companies](#)[CARE's methodology for steel companies](#)[Financial Ratios - Non Financial Sector](#)**About the Company**

KIOCL, incorporated on April 2, 1976, is a company under the Ministry of Steel, Govt of India with Mini Ratna status. The company is an export oriented unit having expertise in Iron Ore Mining, beneficiation and pellets manufacturing with an installed capacity of 3.5 million MTPA for pellets, Pig Iron Plant with a capacity of 0.216 million MTPA. Both the manufacturing facilities are located at Mangalore, Karnataka. The company has certifications from ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007.

During FY16, the company reported net loss of Rs.77.6 crore on a total income of Rs.352.8 crore as against net profit of Rs.30.82 crore on a total income of Rs.745.1 crore in FY15.

**Status of non-cooperation with previous CRA: Not Applicable****Any other information:** Not Applicable**Rating History for last three years:** Please refer Annexure-2

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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
Non-Fund Based - LT/ ST-Bank Guarantees	-	-	-	369.00	CARE AA; Stable / CARE A1+
Fund Based - LT-Cash Credit	-	-	-	1.00	CARE AA; 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Non-Fund Based - LT/ ST-Bank Guarantees	LT/ST	369.00	CARE AA; Stable / CARE A1+	-	-	-	-
2.	Fund Based - LT-Cash Credit	LT	1.00	CARE AA; Stable	-	-	-	-

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