KIOCL Limited

April 03, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	1.00	**CARE AA; Stable [Double A; Outlook: Stable]**	Reaffirmed
Long-term/Short-term Bank Facilities	684.00 (enhanced from 369)	**CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/A One Plus)**	Reaffirmed
Total Facilities	**685.00 (Rs. Six hundred eighty five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of KIOCL Limited (KIOCL) continue to derive strength from majority 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 one year to operationalize and company's strong expertise in setting up and operating pellet plants.

These rating strengths are partially offset by continuous operating losses being incurred by the client despite improving capacity utilization resulting from high logistic costs and overheads due to lack of secure captive mine at present, 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, though interim relief granted till March 31, 2018.

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

Detailed description of the key rating drivers

Key Rating Strengths

Majority Ownership of Govt of India: KIOCL is a 99% owned company of GoI. The company was established in April 1976 at Kudremukh, Karnataka under the Ministry of Steel and Mines to develop mine and plant facilities for production of iron-ore from low grade magnetite ore. Originally funded by Govt of Iran and subsequently taken over by Govt of India, company was one of the leading foreign exchange earners in the state of Karnataka until mining ban impacted company's operations.

Improved Operational Performance in FY17 & 9MFY18: KIOCL witnessed a turnover in operational performance with capacity utilization from 3% in FY16 to 42% in in FY17 as compared to previous years. During FY17 Indian railways provided relief by suspending levy of DBC till March 2017, now extended till March 2018. Additionally the GOI withdrew the Export duty on pellets from Jan 2016. These favorable developments along-with improving overall steel market scenario contributed to improved operational performance of the company. The Operating income was also augmented by O & M Services wherein KIOCL offers its expertise to other organizations and in the current fiscal, company expects revenue of Rs.40 crore from the same. Further, during 9MFY18, company has earned tolling income of Rs. 325.6 crore.

Allotment and Development of Devadari mine block: Government of Karnataka vide Gazette notification dated Jan 23, 2017 has allotted (under reservation route) the said mine in favour of KIOCL for mining of iron ore. KIOCL has received approval for mining plan from Indian Bureau of Mines (IBM) on March 8, 2018 and is awaiting for other approvals i.e. forest Clearance, Environment clearance and Consent for establishment from KSPCB (Karnataka State Pollution control board). Having a functional captive iron ore mine at Devadari shall reduce dependence on NMDC to an extent and is expected boost overall profitability from operations at the existing pellet plant at Mangalore.

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

Strong liquidity with healthy cash balance: KIOCL's liquidity position continues to remain robust with healthy cash balance and debt free status. The company had cash balance of Rs. 1845 crore as on Mar'17 (Mar'16: 1956.7 crore) and around Rs. 1850 crore as on Feb'18. Interest expenses have been negligible for the company at Rs. 0.32 crore in FY17 and Rs. 0.07 crore in 9MFY18. KIOCL utilizes non-fund based facilities such as LC/BG for procurement of raw materials or for providing financial/performance guarantee etc. Although KIOCL has ambitious plans to undertake various capex activities going forward under various MOUs/JVs, the immediate focus is on developing Devadari mines along with setting up of 4MTPA beneficiation plant and 2MTPA pellet plant. The total capex is estimated around Rs. 2000 crore which would be incurred in phase manner post company receiving the requisite approvals for operating the mine. The other capex plans of the company are discretionary in nature. The extent of debt availed by the company to complete capex and the impact on liquidity will be key rating monitorable.

Key Rating Weaknesses

Continuing operating losses though declining: KIOCL's capacity utilization has improved which has translated into improved sales in FY17. For 9MFY18, company reported income of Rs. 1316 crore. However, the company's operations continue to be loss making with PBDIT (adjusted for interest income earned from FD balances) loss of Rs. 92.9 crore in FY17 (FY16: loss of Rs. 268 crore). For 9MFY18, adjusted PBDIT loss was Rs. 47.8 crore.

Susceptibility to price movement of iron ore pellets in International Market & Forex Risk: KIOCL's profitability is susceptible to price fluctuations of pellet in international market. In FY17, iron ore and pellet prices were upward movement since July 2016 onwards and KIOCL was able to capitalize on this positive market trend.

Further, KIOCL being EOU is exposed to foreign exchange risk arising from various currency exposures. The risk is mitigated to some extent by entering into foreign currency forward contracts, though hedging is not 100% and undertaken on need basis only.

Non-operational Blast Furnace Unit

The operation of the blast furnace unit located at Mangaluru (capacity of 2.16 lakh tons to produce foundry grade pig iron) continues to remain suspended since August 2005. Though the company has plans to commence operations, however due to increase in price of Low Ash Metallurgical Coke (LAM), a major component of raw material for operating BFU, the operations are unfeasible at present. As such, limited operations at pellet plant and non-operational BFU restrict the scope of revenue growth.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]

[CARE's Policy on Default Recognition]

[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.

The company has been allotted iron ore mine in Devadari range, Bellary, Karnataka vide Government of Karnataka notification on 23.01.2017. Company has applied for plan approval with IBM (approval received on March 8, 2018) along with forest, environmental and pollution clearance which is yet to be received it.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	352.80	1025.52
PBILDT	-112.35	50.98
PAT	-79.64	47.59
Overall gearing (times)	0.00	0.00
Interest coverage (times)	-307.89	49.08

A: Audited

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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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.

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-Cash Credit	-	-	-	1.00	CARE AA; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	684.00	CARE AA; Stable / CARE A1+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	684.00	CARE AA; Stable / CARE A1+	-	-	1)CARE AA; Stable / CARE A1+ (15-Feb-17)	-
2.	Fund-based - LT-Cash Credit	LT	1.00	CARE AA; Stable	-	-	1)CARE AA; Stable (15-Feb-17)	-

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