

KIOCL Limited

February 20, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/Short-term Bank Facilities	-	-	Revised to CARE AA-; Stable / CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus) and Withdrawn
Long-term Bank Facilities	-	-	Revised to CARE AA-; Stable (Double A Minus; Outlook: Stable) and Withdrawn
Total	-		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has reviewed and revised the ratings assigned to the bank facilities of KIOCL Limited from CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/ A One Plus) to CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus) and simultaneously withdrawn it with immediate effect.

The revision in ratings factors in the operational losses reported by the company during 9MFY20 and continuing delay in operationalization of Devadari mine. However, the rating continues to derive strength from the majority ownership of Govt of India (GoI), its strong liquidity profile, and debt free status of the company while remaining constrained by susceptibility of its profitability to price volatility and raw material availability and its high logistics and overhead costs due to lack of secure captive mine.

The rating withdrawal has been taken at the request of KIOCL Limited and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

Detailed description of the key rating drivers

Key rating strengths

Complete Ownership of Govt of India

KIOCL 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. As on March 31, 2019 the Govt of India holds 99.06% stake in the company.

Strong liquidity profile and healthy cash balances

Historically, the company continues to be long term debt free and has maintained considerable cash and bank balance and the interest expense remained negligible. As on Sep 30, 2019 the company had cash, cash equivalents and bank balance of Rs. 1642.12 Cr against Rs. 1569.18 Cr as on March 31, 2019.

Key Rating Weaknesses

Loss at operational level during 9MFY20

The company reported operating loss of Rs. 23.66 Cr during 9MFY20 against operational profit of Rs. 20.24 cr during 9MFY19 on account of fall in iron pellet prices and reduced capacity utilisation by global steel players. However supported by interest income on its cash balances, PBILD stood at Rs.59.6 cr for the 9MFY20.

During FY19, KIOCL had achieved the highest turnover since inception and reported a growth of 13% over FY18 and operating margin of 3.49%. PAT in FY19 stood at Rs.111cr and witnessed growth of 37% over previous year.

Pending approvals for the development of Devadari mine block and blast furnace unit

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. Even though the mine plan has been received from Indian Bureau of Mines (IBM), the environment and forest clearances are still pending. Due to uneconomical prices of pig iron, company had shut down its Blast Furnace Unit (BFU) in August 2009. However, impending allotment of captive mines in Devadari, company wishes to start the operations of BFU. It has completed refurbishment of the BFU and is expecting to start commercial production once the prices of LAM coke are lesser.

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

In order to utilize the Blast Furnace Unit which was shutdown during August, 2009 owing to unviable operation, the company has made a project proposal for Backward and Forward Integration of the Unit involving capital expenditure of Rs.836.90 Crore and the same has been approved by the Board. The company is in the process of obtaining the Environment Clearance and Forest Clearance from MoEF & CC for commencement of mining activities.

Susceptibility to price movement of iron ore pellets in International Market & Forex Risk

KIOCL, being an EOU is vulnerable to price fluctuations of pellet in international market. Further, the company 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 is undertaken on need basis only.

Cyclical industry

The steel industry is sensitive to the shifting business cycles, including changes in the general economy, interest rates and seasonal changes in the demand and supply conditions in the market. Apart from the demand side fluctuations, the highly capital intensive nature of steel projects along-with the inordinate delays in the completion hinders the responsiveness of supply side to demand movements. This results in several steel projects bunching-up and coming on stream simultaneously leading to demand supply mismatch. Furthermore, the producers of steel products are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility of the steel industry.

Analytical approach: Not Applicable

Applicable Criteria

[Policy on Withdrawal of ratings](#)

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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Operating Income	1694.08	1994.7
PBILDIT	50.11	186.52
PAT	81.48	111.87
Overall Gearing (times)	0.02	0.00
Interest coverage (times)	55.58	168.9

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

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	-	-	-	684.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	684.00	CARE AA-; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (03-Apr-19)	1)CARE AA; Stable / CARE A1+ (03-Apr-18)	-	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 (03-Apr-19)	1)CARE AA; Stable (03-Apr-18)	-	1)CARE AA; Stable (15-Feb-17)

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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