

KIOCL Limited

April 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/Short-term Bank Facilities	684.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable / A One Plus)	Reaffirmed
Long-term Bank Facilities	1.00	CARE AA; Stable [Double A; Outlook: Stable]	Reaffirmed
Total	685.00 (Rs. Six Hundred and 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), improved Operational Performance in FY18 & 9MFY19 with turnaround at operating profit level, 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 susceptibility of operating margins to volatility in raw material and finished good prices, foreign exchange fluctuation risk. Going forward, improving its operational performance 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 99.06% 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 FY18 & 9MFY19

KIOCL's capacity utilization increased from 42% in FY17 to 66% in in FY17 and was at 53% in H1FY19 (63% capacity utilization considering plant was shut down in the month of May'18). During FY17 Indian railways provided relief by suspending levy of distance based charges. 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.

Turnaround at operating profit level in 9MFY19

Improvement in capacity utilization coupled with suspension of distance based charges, removal of export duty and increase in pellet prices helped the company in turnaround at PBDIT level (adjusted for interest income earned from FD balances) in 9MFY19.

Strong liquidity with healthy cash balance and negligible interest expenses

KIOCL's liquidity position continues to remain robust with healthy cash balance and debt free status. The company had cash balance of Rs. 1863 crore as on Mar'18 (Mar'17: 1845 crore) but reduced as on Dec'18 post buyback of shares by GOI. Interest expenses have been negligible for the company at Rs. 0.90 crore in FY17 and Rs. 0.80 crore in 9MFY19. 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. Company's ability to maintain adequate liquidity in light of the above capex would be key rating monitorable.

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

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.

Key Rating Weaknesses

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

KIOCL, being EOU is vulnerable 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

[Rating Methodology – Steel Companies](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[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)	FY17 (A)	FY18 (A)
Total operating income	1025.52	1694.08
PBILDT	50.98	50.11
PAT	47.93	81.48
Overall gearing (times)	0.03	0.02
Interest coverage (times)	49.08	55.58

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.

Analyst Contact:

Name: Himanshu Jain

Tel: 080-4662 5528

Mobile: +91 8123793395

Email: himanshu.jain@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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	-	-	-	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 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+ (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-18)	-	1)CARE AA; Stable (15-Feb-17)	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691