Kesoram Industries Limited (Revised)

March 15, 2019

Rating

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long/Short-term Bank Facilities	906	**CARE BB+/CARE A4+; Credit watch with developing implications (Double B Plus/A Four Plus; under Credit watch with developing implications)**	**Revised from CARE BBB/CARE A3+; Credit watch with developing implications (Triple B/A Three Plus; under Credit watch with developing implications)**
Short-term Bank Facilities	705	**CARE A4+; Credit watch with developing implications (A Four Plus; under Credit watch with developing implications**	**Revised from CARE A3+; Credit watch with developing implications (A Three Plus; under Credit watch with developing implications**
Total	**1,611 (Rupees One Thousand Six Hundred and Eleven crore only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The revision in the ratings assigned to the bank facilities of KIL takes into account significantly higher than envisaged losses in 9MFY19 (refers to the period April 1 to December 31) amidst high debt levels. This has led to further weakening in the credit and financial risk profile.

The quantum of losses had reduced in H1FY19 with improvement in performance of the tyre division, however, in 9MFY19, the loss before interest and tax from the tyre division increased to Rs.71.22 crore (Rs.27.76 crore in H1FY19) as against expectation of improvement. The ratings remain constrained by the leveraged capital structure and continued cash losses, tyre segment exposed to risk of volatility in raw material prices & high competition and cyclicality of the cement industry.

The ratings draw strength from the established track record and demonstrated support of the promoters to the company and operational efficiency of the cement division.

The ratings assigned to KIL continue to remain under credit watch with developing implications as the Board of Directors of KIL, at its meeting held on December 4, 2018, had approved the demerger of the tyre division into Birla Tyres Limited (BTL). The Proposed Demerger shall be subject to various necessary regulatory approvals. Post demerger, BTL will be listed with its shareholding pattern being same as KIL. The appointed date of such demerger will be Jan.1, 2019.

The tyre division which is being demerged contributed about 39% of the revenue in FY18. However, it incurred a loss before interest and tax of Rs.128.93 crore in FY18 as against a profit before interest and tax of Rs.127.50 crore earned by the cement division which KIL will continue to operate. Further, with the demerger of the tyre division, the debt level in KIL is expected to reduce.

CARE will take a final view on the ratings once the demerger process is completed and exact implications of the above demerger on the credit risk profile of KIL are clear.

Detailed description of the key rating drivers

Key Rating Weaknesses

Increased losses in Q3FY19

Though KIL's total operating income remained relatively stable at Rs.3,606.87 crore in FY18 vis-à-vis Rs.3,715.03 crore in FY17, the company incurred operating loss of Rs.53.53 crore in FY18 vis-à-vis operating profit of Rs.68.52 crore in FY17. This was primarily due to increased losses in the tyre division.

The losses had reduced in H1FY19 in the tyre division and the company reported net loss of Rs.159.65 crore on total income of Rs.1914.73 crore vis-à-vis net loss of Rs.262.18 crore on total income of Rs.1756.47 crore in H1FY18. However, in Q3FY19, the loss before interest and tax from the tyre division increased to Rs.43.46 crore as against Rs.19.87 crore in

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

Q2FY19. This resulted in increase in net loss to Rs.115.35 crore in Q3FY19 from Rs.96.25 crore in Q2FY19, though the profit from cement division increased.
Increased losses in Q3FY19 amidst continued cash losses in the past have led to further deterioration in the debt protection metrics of the company.

Weak capital structure and debt coverage indicators
The company adopted IND-AS from April 1, 2017 and the networth stood at Rs.845.87 crore as on March 31, 2017 vis-à-vis Rs.193.29 crore as on March 31, 2017 (under previous IGAAP). The increase in networth was primarily due to fair valuation gain on fixed assets. Further, despite equity infusion of Rs.312 during FY18, the networth decreased to Rs.773.59 crore as on March 31, 2018 due to net loss of Rs.463.51 crore during the year. The total debt increased from Rs.3,637.70 crore as on March 31, 2017 to Rs.3,895.81 crore as on March 31, 2018. Consequently, the overall gearing increased from 4.30x as on March 31, 2017 to 5.04x as on March 31, 2018. The debt coverage indicators remained weak and the company met its obligations timely through infusion of funds by the promoters.
The total debt had reduced to Rs.3,413.43 crore as on September 30, 2018 with significant reduction in working capital borrowings. However, it increased to Rs.3520.41 crore as on Dec.31, 2018.

Losses in tyre division
In the tyre segment, KIL's aggregate installed capacity is around 21.65 lakh tyres per annum. Its product portfolio consists of mainly Truck/Bus Tyre, 2/3 wheelers tyres, Light commercial vehicle tyres. Replacement market accounts for around 65% of the total sales of tyre division. KIL sells tyres (under the brand name of Birla tyres).
The operating loss of tyre division had increased in FY18 and the profitability remains impacted due to sale of low margin Truck & Bus bias tyres and stiff completion from the established players in the industry. Though the performance of the division had witnessed q-o-q improvement from Q3FY18 till Q2FY19, the quantum of losses again increased in Q3FY19.
The Company is setting up a Passenger Car Radial tyre Unit of 80 MT per day at Balasore unit for which it has already incurred around Rs.740 crore.

Risk of volatility in raw material prices
KIL sources majority of natural rubber from the open market which has witnessed volatility in the recent past. Consequently, the performance of KIL depends upon the ability to procure natural rubber at competitive prices. Further, there has been significant volatility in prices of other raw materials such as synthetic rubber, carbon black.

Cyclical nature of cement industry
Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realisations.

Key Rating Strengths
Long & established track record of the company
KIL, the flagship company of B. K. Birla group, was set up in the year 1919 and has been operating over the last nine decades. B. K. Birla group is a leading industrial group in the country with major interests in tea, cement, tyres, textiles, etc. Mr. B. K. Birla is the promoter & Chairman of KIL and his daughter Smt. Manjushree Khaitan is the vice-chairperson and executive director. As on Sep.30, 2018, the promoters' stake in KIL is around 53.18%.
To support the company in view of losses, the promoters infused equity of Rs.312 crore in March'2018 through preferential allotment and warrants and Rs.23.73 crore was infused as unsecured loan.

Operational efficiency of cement division by way of limestone mines and captive power plant
In the cement segment, KIL sells both PPC and OPC. The ratio of OPC and PPC is around 55:45. KIL sells cement under the brand name 'Birla Shakti' and has presence in Western and Southern regions of the country. KIL sources limestone from its two leasehold mines (one each at both the locations). The limestone reserves at both the mines extend beyond economic life of the respective plants. The said mines are located in proximity of the clinker plants, thereby enabling the company to optimize cost. Cement production, being power intensive, KIL needs uninterrupted supply of power which is ensured by the CPPs installed at its plant locations (aggregate capacity 93MW), which meets the entire annual power requirement of the cement unit. The cheaper cost of power generated in CPPs vis-à-vis power from GRID reduces power cost leading to improvement in operational efficiency of the company.

Liquidity
The liquidity position of the company is stressed on account of continuous losses. The promoters infused Rs.312 crore of equity in FY18 to support liquidity. In FY19, liquidity was supported by recovery of capital advances of Rs.170 crore and reduction in loans given to subsidiary by about Rs.100 crore. The company had undrawn lines of credit of about Rs.40 crore as on February 1, 2019.

Analytical approach: Standalone

Applicable Criteria
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Rating Methodology-Manufacturing Companies]
[Rating Methodology - Cement Industry]
[Rating Methodology – Placing ratings under credit watch]

About the Company
KIL, the flagship company of the B. K. Birla group, is a diversified conglomerate engaged in manufacturing of tyres & tubes and cement. The primary products are tyre (majorly into Truck & Bus Segment- T& B) and cement, which accounted for 39% and 61% respectively of gross turnover in FY18. KIL's cement manufacturing units have an aggregate capacity of 7.25 million tonnes per annum (MTPA) and are located in Karnataka & Andhra Pradesh. The tyre manufacturing facility of the company is located at Balasore, Orissa, having an installed capacity to produce 21.65 lakh tyres per annum.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	3,715.03	3,606.87
PBILDT	68.52	-53.53
PAT	-154.87	-463.51
Overall gearing (times)	4.30	5.04
Interest coverage (times)	0.24	NM

A: Audited
NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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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Annexure-1: Details of 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 - ST-BG/LC	-	-	-	575.00	CARE A4+ (Under Credit watch with Developing Implications)
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	906.00	CARE BB+ / CARE A4+ (Under Credit watch with Developing Implications)
Fund-based - ST-Term loan	-	-	March'19	130.00	CARE A4+ (Under Credit watch with Developing Implications)

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.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (03-Apr-15)
2.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (08-Jun-16)	1)CARE A- (Under Credit Watch) (11-Jan-16) 2)CARE A- (Under Credit Watch) (01-Oct-15) 3)CARE A- (Under Credit Watch) (03-Apr-15)
3.	Non-fund-based - ST-BG/LC	ST	575.00	CARE A4+ (Under Credit watch with Developing Implications)	1)CARE A3+ (Under Credit watch with Developing Implications) (13-Dec-18) 2)CARE A3+ (Under Credit watch with Developing Implications) (22-May-18)	1)CARE A2+ (Under Credit watch with Negative Implications) (20-Feb-18) 2)CARE A2+ (Under Credit watch with Negative Implications) (25-Jan-18) 3)CARE A2+ (Under Credit watch with Negative Implications) (21-Nov-17) 4)CARE A2+ (25-Sep-17) 5)CARE A1 (12-Jul-17)	1)CARE A1 (14-Oct-16) 2)CARE A1 (08-Jun-16)	1)CARE A2+ (Under Credit Watch) (11-Jan-16) 2)CARE A2+ (Under Credit Watch) (01-Oct-15) 3)CARE A2+ (Under Credit Watch) (03-Apr-15)

4.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	906.00	CARE BB+ / CARE A4+ (Under Credit watch with Developing Implications)	1)CARE BBB / CARE A3+ (Under Credit watch with Developing Implications) (13-Dec-18) 2)CARE BBB / CARE A3+ (Under Credit watch with Developing Implications) (22-May-18)	1)CARE A- / CARE A2+ (Under Credit watch with Negative Implications) (20-Feb-18) 2)CARE A- / CARE A2+ (Under Credit watch with Negative Implications) (25-Jan-18) 3)CARE A- / CARE A2+ (Under Credit watch with Negative Implications) (21-Nov-17) 4)CARE A-; Negative / CARE A2+ (25-Sep-17) 5)CARE A; Negative / CARE A1 (12-Jul-17)	1)CARE A / CARE A1 (14-Oct-16) 2)CARE A / CARE A1 (08-Jun-16)	1)CARE A- / CARE A2+ (Under Credit Watch) (11-Jan-16) 2)CARE A- / CARE A2+ (Under Credit Watch) (01-Oct-15) 3)CARE A- / CARE A2+ (Under Credit Watch) (03-Apr-15)
5.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (03-Apr-15)
6.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (03-Apr-15)
7.	Preference Shares-Convertible Prefrence Shares	LT	-	-	-	1)Withdrawn (12-Jul-17)	1)CARE BBB+ (RPS) (14-Oct-16) 2)CARE BBB+ (RPS) (08-Jun-16) 3)CARE BBB+ (RPS) (Under Credit Watch) (12-Apr-16)	-
8.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (30-Jun-16) 2)CARE A1 (08-Jun-16)	-
9.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (22-May-18)	1)CARE A- (Under Credit watch with Negative Implications) (20-Feb-18) 2)CARE A-	-	-

						(Under Credit watch with Negative Implications) (25-Jan-18) 3)CARE A- (Under Credit watch with Negative Implications) (21-Nov-17) 4)CARE A-; Negative (25-Sep-17) 5)CARE A; Negative (12-Jul-17)		
10.	Fund-based - ST-Term loan	ST	130.00	CARE A4+ (Under Credit watch with Developing Implications)	1)CARE A3+ (Under Credit watch with Developing Implications) (13-Dec-18) 2)CARE A3+ (Under Credit watch with Developing Implications) (22-May-18)	-	-	-

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