

Kirloskar Electric Company Limited

April 16, 2020

Ratings

Instruments/Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Medium-term Instruments – Fixed Deposits	0.45 (5.48)	CARE D (FD) [Single D; (Fixed Deposit)]	Reaffirmed
Long-term Bank Facilities- Term loan	37.50 (21.00)	CARE D (Single D)	Reaffirmed
Long-term Bank Facilities- Cash credit	49.83 (85.80)	CARE D (Single D)	Reaffirmed
Short-term Bank Facilities	77.63 (137.86)	CARE D (Single D)	Reaffirmed
Total	165.41 (Rs. One hundred sixty five crore and forty one lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities and medium term instruments of Kirloskar Electric Company Limited (KECL) continues to be constrained by the delays in the term loan obligations, weak financial risk profile marked by cash losses continuing in 9MFY20 and tight liquidity position. Rating is also constrained by the exposure to volatility in raw material prices and low bargaining power due to heavy competition in the electrical equipment industry. CARE also takes into account the part payment of outstanding dues by monetization of assets and regularization of working capital facilities since Dec '19.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile and continuing delays in debt servicing

The company's TOI declined by 23% in FY19 since the company was unable to execute orders due to ongoing liquidity issues. KECL's cash losses further deteriorated in FY19 to Rs. 70.88 Cr from Rs.66.19 Cr the previous year. During 9MFY20, even though the company's TOI improved by 6.7% from that of 9MFY19, the company reported higher cash losses to the extent of Rs. 75.29 Cr (cash losses in 9MFY19 of Rs.54.67 crore). As a result, company's liquidity position continues to remain weak and company delayed its debt servicing.

Low bargaining power

The competition in electrical equipment industry has been increasing due to factors like diversion of export focused production capacity to cater to domestic market on the back of upheaval in the advanced economies, import of cheaper equipment, especially from China and large number of smaller unorganized players in the industry. The stiff competition restricts the pricing flexibility and the prices of the products and in turn profitability margins of the company which continue to be under pressure. As on Feb-19, company has an order book position of Rs. 241.42 crore. CARE also takes note of the disruption in manufacturing and supplies post the national lockdown amid COVID-19 threat.

Exposure to volatility in raw material prices

The major raw materials used for KECL are copper, iron and steel and the prices are highly volatile due to their global linkages. With a raw material cost accounting for more than 75% of overall cost of production, ability of the company to pass on the price rise to its customers plays a crucial role in the overall profitability.

Rating Strengths

Part repayment of overdue by monetizing assets

Under the restructuring program, some assets were monetized during FY19 and 9MFY20 to pay off part of the overdue. The outstanding dues in term loans are expected to be paid in FY21 by monetization of assets for which approvals are pending.

Liquidity: Poor

The liquidity position of the company is poor since the operations continue to make cash losses and there are delays in debt servicing. The company is managing working capital by stretching the creditor payment.

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

Analytical approach: Standalone

Applicable Criteria

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

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios - Non-Financial sector](#)

About the Company

Kirloskar Electric Company Limited (KECL) headquartered in Bangalore was incorporated in 1946. In its past seven decades of existence, the company has established itself as one of the major players in the domestic electric equipment industry. KECL is engaged in manufacturing of AC Motors, DC Motors, Transformers, Switchgear and Electronics through eight manufacturing units. The day to day operations of the company are looked after by Mr. Vijay Kirloskar (Chairman), who is adequately supported by a group of professionals having rich business experience.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	387.62	298.53
PBILDT	-31.27	-30.27
PAT	-76.83	-18.62
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	NM

A: Audited; NM: Not Meaningful

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
Fund-based - LT-Cash Credit	-	-	-	49.83	CARE D
Non-fund-based - ST-BG/LC	-	-	-	77.63	CARE D
Fund-based - LT-Term Loan	-	-	March 31, 2018	37.50	CARE D
Fixed Deposit	-	-	May 31, 2018	0.45	CARE D (FD)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	49.83	CARE D	-	1)CARE D (02-Apr-19)	1)CARE D (03-Apr-18)	1)CARE D (16-Oct-17) 2)CARE B+; Stable (07-Apr-17)
2.	Non-fund-based - ST-BG/LC	ST	77.63	CARE D	-	1)CARE D (02-Apr-19)	1)CARE D (03-Apr-18)	1)CARE D (16-Oct-17) 2)CARE A4 (07-Apr-17)
3.	Fixed Deposit	LT	0.45	CARE D (FD)	-	1)CARE D (FD) (02-Apr-19)	1)CARE D (FD) (03-Apr-18)	1)CARE C (FD) (16-Oct-17) 2)CARE B+ (FD); Stable (07-Apr-17)
4.	Fund-based - LT-Term Loan	LT	37.50	CARE D	-	1)CARE D (02-Apr-19)	1)CARE D (03-Apr-18)	1)CARE C (16-Oct-17) 2)CARE B+; Stable (07-Apr-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
i	
ii	
iii ...and so on..	
B. Non financial covenants	
i	
ii	
iii ...and so on..	

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.

Contact us**Media Contact**

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name - Archana N R

Group Head Contact no.- 080- 46625525

Group Head Email ID- archana.nr@careratings.com

Relationship Contact

Name: Nitin Kumar Dalmia

Contact no. : 080-46625555

Email ID : nitin.dalmia@careratings.com

About CARE Ratings:

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