March 31, 2022

Kesoram Industries Limited: Rating assigned for NCD and OCD programmes; issuer rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures (NCD)	-	1549.0	[ICRA]BBB- (Stable); assigned
Optionally-Convertible Debentures (OCD)	-	167.0	[ICRA]BBB- (Stable); assigned
Total		**1716.0**	
Issuer Rating	-	-	[ICRA]BBB- (Stable); reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The rating favourably factors in the improving operating performance of Kesoram Industries Limited (KIL), reflected in the increase in OPBIDTA/MT in FY2021 and FY2022. ICRA estimates the operating profits to be higher by 42-46% in FY2022, driven by increase in sales volumes and net sales realisations and better absorption of fixed costs. Despite the expected pressure on the OPBIDTA/MT in FY2023 due to rising input costs of fuel such as coal, pet coke and diesel, the focus on increasing the share of blended cement along with volumetric growth is likely to support the OPBIDTA to an extent. In FY2022 and FY2023, ICRA expects KIL to report a sales volume growth of around 31-33% and 5-7% YoY, respectively. KIL's sales volumes in the last three years have been constrained at 5.4-6.4 million MT levels due to the prevailing liquidity issues during that period. In 9M FY2022, the sales volume increased 45% YoY, supported by improved liquidity post the one-time settlement with lenders in Q4 FY2021**.** Further, the long-term demand prospects are positive, given the government's thrust on affordable housing and infrastructure segments.

The rating also factors in the proceeds from KIL's rights issue of Rs. 399 crore as of March 2022 (including Rs. 50 crore of ICD infused by the promoters in H1 FY2022 which has been converted into equity), which has improved KIL's liquidity. Of the rights issue proceeds, Rs. 55 crore was used to repay non-convertible debentures (NCDs) in November 2021 and Rs. 293.9 crore to prepay[1] optionally convertible debentures (OCDs) in January 2022. The rating also factors in KIL's track record of operations in the cement manufacturing business with an established presence in Maharashtra, Telangana and Karnataka. The company's vertically integrated cement operations, supported by clinkerisation facility of 6.3 MTPA, captive limestone mines and a captive thermal power plant of 94.2 MW also support the rating. Further, the good quality limestone reserves at Sedam in Karnataka aid in cost efficiency.

The assigned rating, however, is constrained by the company's modest financial risk profile and exposure to refinancing risk. The company's financial profile is characterised by adverse capital structure and modest coverage indicators due to the high estimated adjusted debt[2] levels of around Rs. 2145-2150 crore[3] as on March 31, 2022. Despite the improved OPBIDTA, the large debt and high cost of borrowings resulted in a moderate interest cover of 1.6 times in FY2021. Although the company has prepaid OCDs worth Rs. 293.9 crore on January 31, 2022, the adjusted TD/OPBIDTA is likely to remain at ~3.7-4.1 times in

1 Prepaid on January 31, 2022 against the scheduled repayment date of August 31, 2022

[2] *Adjusted debt refers to the actual debt outstanding including unpaid premium accrued as against the amortised cost figure reported as per the financial statements prepared as per IndAS accounting*

[3] *Estimated book value of debt as on March 31, 2022 of around Rs. 1630-1640 crore*

FY2022-FY2023. The adjusted DSCR[4] is likely to improve to around 1.3-1.4x in FY2023, supported by the lower debt obligations (due to prepayment in FY2022) in FY2023 from less than 1x in FY2022, where the debt repayments were supported by the rights issue proceeds.

KIL is also exposed to refinancing risk, with 78% of the debt amortising in February 2026 and high premium on redemption. Moreover, the absence of any sanctioned working capital limits may adversely impact the company's ability to fund the incremental working capital requirements, should the need arise. Nonetheless, KIL has plans to refinance the existing high cost debt at more favourable terms by Q1 FY2023, which is likely to support the debt coverage metrics going forward. ICRA also notes the cyclicality inherent in the cement industry which leads to variability in profitability and cash flows. Further, KIL's operating profitability remains susceptible to the fluctuations in input prices. Any incremental investments or support to subsidiaries or Group companies by KIL will also remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that KIL will continue to benefit from its established presence in the western and southern region and generate healthy cash accruals from the business which will support its refinancing ability.

Key rating drivers and their description

Credit strengths

Established track record in cement business with integrated manufacturing facilities – KIL has an extensive track record of operations in the cement business with an established presence in Maharashtra, Telangana and Karnataka. The company has a total cement capacity of 10.8 MTPA and the operations remain vertically integrated, supported by clinkerisation facility of 6.3 MTPA, captive limestone mines and a captive thermal power plant of 94.2 MW. Further, good quality limestone reserves at Sedam support cost efficiency.

Operating performance to improve in FY2022; long-term growth prospects strong – KIL's sales volumes in the last three years have been constrained at 5.4-6.4 million MT levels due to the prevailing liquidity issues. The sales volumes in 9M FY2022 increased 45% YoY to 5.3 million MT, supported by the improved liquidity post the one-time settlement with lenders in Q4 FY2021**.** In FY2022 and FY2023, ICRA expects KIL to report a sales volume growth of around 31-33% and 5-7% YoY, respectively. In FY2022, ICRA estimates KIL to report growth of 7-8% in OPBIDTA/MT, backed by improved sales realisations and better absorption of fixed costs. Despite the pressure on the OPBIDTA/MT in FY2023 due to rising input costs of fuel such as coal, pet coke and diesel, the focus on increasing the share of blended cement along with volumetric growth is likely to support the OPBIDTA to an extent. The long-term demand prospects for the cement industry remain positive because of the Government's thrust on the affordable housing and infrastructure segments.

Proceeds from rights issue have supported debt prepayments- The company launched a rights issue allotment in September 2021 and proceeds of around Rs. 399 crore have been received as of March 2022, which aided the liquidity position. Of these proceeds, Rs. 50 crore of ICDs infused from promoters in H1 FY2022 has been converted into equity as part of this rights issue, an amount of Rs. 55 crore has been used to redeem NCDs in November 2021, while Rs. 293.9 crore has been used to prepay OCDs in January 2022.

Credit challenges

Modest, though improving, financial risk profile; exposure to refinancing risk - KIL's financial profile is characterised by adverse capital structure and modest coverage indicators given the high adjusted debt levels. Despite the improvement in OPBIDTA, the large debt and high cost of borrowings resulted in a moderate interest cover of 1.6 times in FY2021. Although

[4] *Adjusted DSCR includes actual debt repayments and adjusted interest which takes into account cash coupon and premium as against the finance cost accrued as per the P&L statement*

the company has prepaid NCDs worth of Rs. 55 crore in November 2021 and OCDs worth Rs. 293.9 crore in January 2022, the adjusted TD/OPBIDTA is likely to remain at ~3.7-4.1 times and the adjusted DSCR is expected to improve to around 1.3-1.4x in FY2023 from <1x in FY2022 supported by the lower debt obligations (due to prepayment in FY2022) in FY2023. KIL is exposed to refinancing risks with 78% of the debt amortising in February 2026 and high premium on redemption. Further, the absence of any sanctioned working capital limits may adversely impact their ability to fund the incremental working capital requirements, should the need arise. Nonetheless, KIL has plans to refinance the existing high-cost debt with favourable terms by Q1FY2023, which is likely to support the debt coverage metrics going forward.

Vulnerability of revenues to cyclicality in economy; susceptibility of profitability to fluctuations in input prices – KIL remains exposed to the demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity additions by the players during such periods. Besides, the profitability remains susceptible to the fluctuations in input prices, primarily coal, pet coke and diesel. Given the elevated fuel prices, the company's profitability is likely to remain under pressure in the near term.

Liquidity position: Adequate

ICRA expects the company's liquidity position to remain adequate, supported by proceeds from the rights issue and cash and bank balances. KIL had free cash balances of Rs. 115.7 crore as on September 30, 2021 and rights issue proceeds of Rs. 399.0 crore were majorly used to repay NCDs of Rs. 55 crore and prepay OCDs of Rs. 293.9 crore. The scheduled repayment of the balance OCDs of ~Rs. 166.0 crore in FY2023 is likely to be comfortably met from the cash flow from operations. Further, the regular capex requirements in the near term are expected to be met from internal accruals.

Rating sensitivities

Positive factors – The rating can be upgraded if the company is able to improve its revenues and earnings on a sustained basis and refinance the existing debt at favourable terms, improving the debt coverage metrics and liquidity.

Negative factors – Negative pressure on KIL's ratings may arise if the revenues and earnings decline on a sustained basis, weakening the credit metrics and liquidity position. Any major debt-funded capex or any incremental support towards subsidiaries/group companies weakening the credit metrics and liquidity position would also pose a downward pressure on KIL's ratings. Specific credit metric of adjusted DSCR lower than 1.3 times on a sustained basis may trigger a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for Cement Companies
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement of the issuer. This is considering that there are restrictive clauses as per the terms of the NCDs/OCDs for extending support to group companies without the prior approval of the debenture trustee and further, the corporate guarantee extended by the company to the debt of subsidiary, Cygnet Industries Ltd., had fallen off. ICRA is given to understand that KIL would not extend incremental support to its subsidiaries.

About the company

Kesoram industries Limited (KIL) was set up in 1919 and is a part of the B.K. Birla Group of companies which is a well-diversified conglomerate, having interests in cement, textiles, rayon, chemicals, pulp and paper. The rayon unit has been transferred to

Cygnet Industries Limited (wholly-owned subsidiary of KIL) as on March 31, 2016. KIL's tyre manufacturing division was demerged into Birla Tyres Limited from January 1, 2019 (appointed date).

KIL has two integrated cement manufacturing plants at present, one at Sedam (Karnataka) with a clinker capacity of 5.1 MTPA and cement grinding capacity of 9.0 MTPA and the other one at Basantnagar (Telangana) with a clinker capacity of 1.2 MTPA and cement grinding capacity of 1.8 MTPA. As on December 31, 2021, the combined capacity of clinker is 6.3 MTPA and that of cement stood at 10.8 MTPA.

Key financial indicators (audited)

	FY2020	FY2021	9MFY2022
Operating Income (Rs. crore)	2,330.0	2,415.2	2512.7
PAT (Rs. crore)	(485.5)	166.9	2.5
OPBDIT/OI (%)	9.8%	16.3%	17.4%
PAT/OI (%)	(20.8%)	6.9%	0.1%
Total Outside Liabilities/ Tangible Net Worth (times)	109.8	7.3	-
Total Debt/OPBDIT (times)	8.7	4.7	-
Interest Coverage (times)	0.7	1.6	1.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 29, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 31, 2022	Feb 10, 2022	-	-
1	Issuer Rating	Long Term	NA	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
2	NCD	Long Term	1549.0	1548.5	[ICRA]BBB- (Stable)	-		
3	OCD	Long Term	167.0	166.0	[ICRA]BBB- (Stable)	-		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Very Simple
NCD	Simple
OCD	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BBB- (Stable)
INE087A07651	NCD	Mar-21	9.10%*#	Feb-26	1549.0	[ICRA]BBB- (Stable)
INE087A07669	OCD	Mar-21	8.70%*	Aug-22	167.0	[ICRA]BBB- (Stable)

Source: *KIL*

* *Payable monthly. Overall XIRR of 20.75% p.a.*

\# *Interest of 9.10% p.a. for 1-18 months, 11.30% p.a. for 19-36 months and 13.10% p.a. from 37th month onwards.*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Nijara Kalita
+91 22 6114 3455
nijara.kalita@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3400
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches