March 15, 2024

Kesoram Industries Limited: Rating assigned for Rs. 300 crore bank limits and placed on rating watch with developing implications; Rating continues on Rating Watch with Developing Implications for Issuer rating and Fixed Deposits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	[ICRA]BBB-; continues on Rating Watch with Developing Implications
Fixed deposits	190.0	100.0	[ICRA]BBB-; continues on Rating Watch with Developing Implications
Long-term - Fund based /non-fund based - Others	0.00	150.0	[ICRA]BBB-; assigned; Placed on Rating Watch with Developing Implications
Long-term - Unallocated limits	0.00	150.0	[ICRA]BBB-; assigned; Placed on Rating Watch with Developing Implications
Total	**190.0**	**400.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Kesoram Industries Limited (KIL) factors in the likely improvement in its debt coverage metrics, supported by the refinancing of the high cost, short tenure non-convertible debentures (NCDs) with low cost and longer tenure term loans in February 2024. The new term loans have a tenure of 10 years as against 2 years of residual tenure of the NCDs, with reduction in the interest rate to 11.25% p.a from 19% p.a. earlier, thereby eliminating the refinancing risk. The term loans have a ballooning repayment structure with a moratorium of 9 months resulting in significant decline in debt servicing burden in the near to medium term. The company has achieved revenues of Rs. 2,736.9 crore in 9M FY2024 and is estimated to do Rs. 3,600 – 3,700 crore in FY2024 as per ICRA expectations. The rating continues to consider KIL's track record of operations in the cement manufacturing business with established presence in Maharashtra, Telangana and Karnataka. The company's vertically integrated cement operations, with 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 rating is, however, constrained by the company's leveraged capital structure. Notwithstanding an improvement in OPBITDA/MT to Rs. 540/MT in 9M FY2024 (Rs. 600/MT in Q3 FY2024) from Rs. 430/MT in FY2023, it continues to remain moderate on account of sustained higher power and fuel costs due to lack of working capital limits tilting the company towards procurement of relatively higher cost fuel. In March 2024, the company received a sanction of Rs. 150.0 crore working capital limits and the impact of the same on company's OPBITDA/MT remains a key monitorable. KIL's total debt remained at Rs. 1,778.6 crore as of December 2023. With low repayments in the medium term as per the new debt structure, the debt and leverage levels are expected to remain elevated over the next two years. The rating continues to remain constrained by the cyclicality inherent in the cement industry, which leads to variability in profitability and cash flows. The company's creditors continue to remain high due to absence of working capital limits. This apart, any incremental investments or support to subsidiaries or Group companies by KIL will remain a key monitorable.

ICRA notes the approved composite scheme of arrangement among KIL, UltraTech Cement Limited (UCL) and their respective shareholders and creditors for demerger of KIL's cement division into UCL. The rating continues to remain on Watch With

Developing Implications and ICRA will continue to monitor the developments and will take appropriate rating action as and when further details are available.

Key rating drivers and their description

Credit strengths

Favourable change in debt terms to result in improvement in coverage metrics in medium term – In February 2024, KIL has refinanced the high cost, short tenure NCDs with low cost and longer tenure term loans. The new term loans have a tenure of 10 years against 2 years of residual tenure of NCDs with reduction in interest rate to 11.25% p.a. from 19% p.a. earlier, thereby eliminating the refinancing risk. The term loans have a ballooning repayment structure with a moratorium of 9 months resulting in significant reduction in debt servicing burden in the near to medium term.

Established track record in the 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. It has vertically integrated operations, 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.

Credit challenges

Moderate OPBITDA/MT leveraged capital structure and high creditor days – Notwithstanding an improvement in OPBITDA/MT to Rs. 540/MT in 9M FY2024 (Rs. 600/MT in Q3 FY2024) from Rs. 430/MT in FY2023, it continues to remain moderate on account of sustained higher power and fuel costs due to lack of working capital limits tilting the company towards procurement of relatively higher cost fuel. The company's creditors continue to remain high due to absence of working capital limits. In March 2024, the company received a sanction of Rs. 150.0 crore working capital limits and the impact of the same on company's OPBITDA/MT remains a key monitorable KIL's total debt remained at Rs. 1,778.6 crore as of December 2023. With low repayments in the medium term as per the new debt structure, the debt and leverage levels are expected to remain elevated over the next two years.

Vulnerability of revenues to cyclicality in economy – KIL remains exposed to demand and pricing dynamics in the cement industry, which are influenced by the cyclical economic trends and capacity addition by the players during such periods. Further, its operating profitability remains susceptible to fluctuations in input prices.

Environmental and social risks

Cement manufacturing is an energy-intensive process requiring substantial quantities of fuel and thus resulting in greenhouse gas emissions, waste generation, and pollution. Like other cement producers, KIL has had to contend with higher costs to meet the tightening pollution standards. As the standards tighten further, its ability to pass on the increased compliance costs to the customers will be a key monitorable. Further, the industry is exposed to physical climate risks, which could impact operations in the absence of sufficient feedstock inventory, given the dependence on limestone mines for raw material.

Social risk in the cement industry stems from the health and safety concerns of employees involved in the mining of limestone and the production of clinker and cement. Entities in the cement industry like KIL are also exposed to labour-related risks and risks of protests/social issues with local communities, which could impact the manufacturing process, expansion/ modernisation plans.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by available free cash balances of around Rs. 110.0 crore as of September 2023. It has scheduled repayments of Rs. 60.1 crore in Q4 FY2025, which can be serviced through estimated cash flows from operations. Further, KIL has moderate capex plans in FY2025, which is expected to be met through internal accruals.

Rating sensitivities

Positive factors – The watch will be resolved once the transaction is consummated.

Negative factors – The watch will be resolved once the transaction is consummated. Negative pressure on KIL's rating may arise if there is material decline in revenues or the company is unable to improve its profitability or significant debt-funded capex, or if any incremental support towards subsidiaries/Group companies weakens the debt protection metrics and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Cement
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statement of the issuer. This is considering that there are restrictive clauses for extending support to Group companies without the prior approval from the lenders. ICRA is given to understand that KIL would not extend any 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, rayon, transparent paper and chemicals.

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 date, the combined capacity of the clinker is 6.3 MTPA and that of cement stood at 10.8 MTPA.

Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Operating income	3,539.6	3,535.7	2,736.9
PAT	-130.0	-115.7	-78.5
OPBDIT/OI	15.5%	8.6%	10.8%
PAT/OI	-3.7%	-3.3%	-2.9%
Total outside liabilities/Tangible net worth (times)	3.9	3.4	NA
Total debt/OPBDIT (times)	3.1	5.7	NA
Interest coverage (times)	1.1	0.7	NA

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; NA – Not available *provisional*

Amount in Rs. Crore; 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 (FY2024)						Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021
					Mar 15, 2024	Mar 08, 2024	Dec 11, 2023	Mar 03, 2023	Nov 22, 2022	Jun 20, 2022	Mar 31, 2022	Feb 10, 2022	-
1	Issuer rating	Long term	-	-	[ICRA]BBB-; rating watch with developing implications	[ICRA]BBB-; rating watch with developing implications	[ICRA]BB+; rating watch with developing implications	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	Non-convertible debentures (NCD)	Long term	-	-	-	[ICRA]BBB-; rating watch with developing implications; withdrawn	[ICRA]BB+; rating watch with developing implications	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
3	Fixed deposits	Long term	100.0	100.0	[ICRA]BBB-; rating watch with developing implications	[ICRA]BBB-; rating watch with developing implications	[ICRA]BB+; rating watch with developing implications	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	-	-	-
4	OCD	Long term	-	-	-	-	-	-	[ICRA]BBB- (Negative); Withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-
5	Fund based /Non-fund based - Others	Long term	150.0	-	[ICRA]BBB-; rating watch with developing implications	-	-	-	-	-	-	-	-
6	Unallocated limits	Long term	150.0	-	[ICRA]BBB-; rating watch with developing implications	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA
Fixed deposits	Simple
Fund based /Non-fund based - Others	Simple
Unallocated limits	NA

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 analysing 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 are available on ICRA's website: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer rating**	NA	NA	NA	-	[ICRA]BBB-; Rating Watch with Developing Implications
NA	**Fixed deposits**	NA	NA	NA	100.0	[ICRA]BBB-; Rating Watch with Developing Implications
NA	**Fund based /Non-fund based - Others**	NA	NA	NA	150.0	[ICRA]BBB-; Rating Watch with Developing Implications
NA	**Unallocated limits**	NA	NA	NA	150.0	[ICRA]BBB-; Rating Watch with Developing Implications

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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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.

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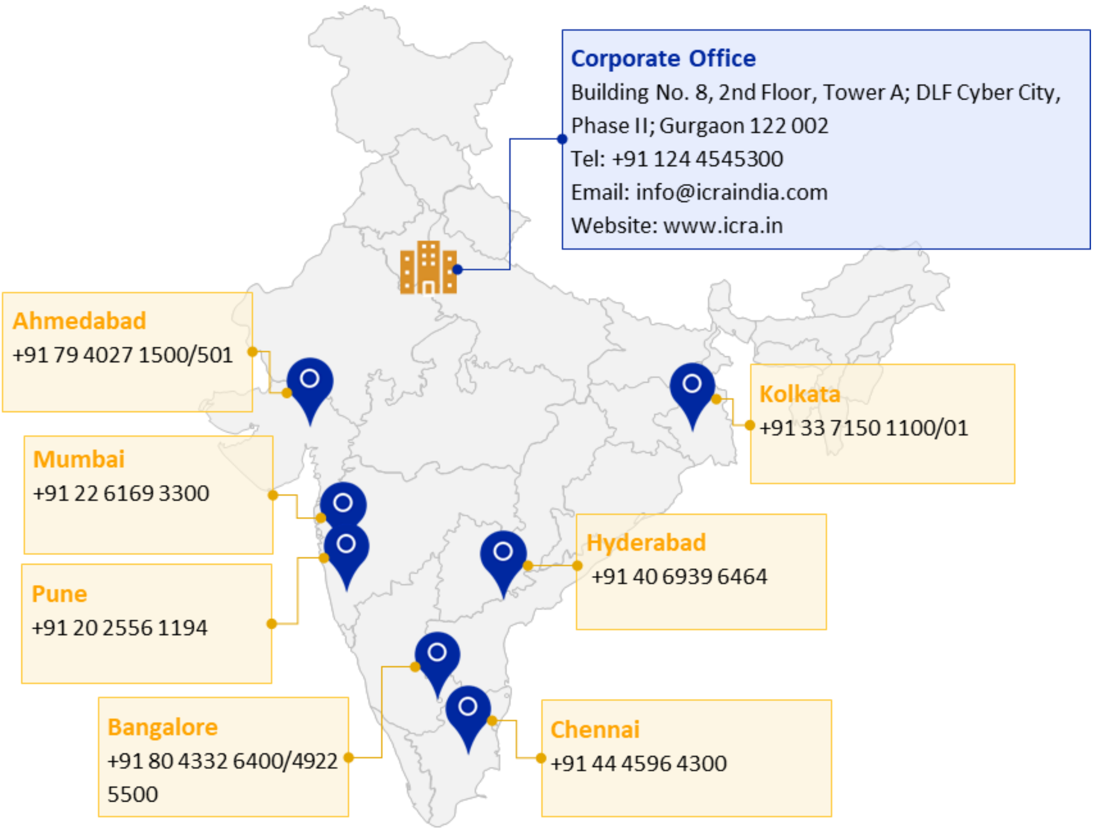

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