

December 11, 2023

Kesoram Industries Limited: Placed on Rating Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	-	
Non-convertible debentures (NCD)	1549.0	1549.0	[ICRA]BB+; Placed on Rating Watch with Developing Implications
Fixed deposits	190.0	190.0	
Total	1739.0	1739.0	

*Instrument details are provided in Annexure-I

Rationale

On November 30, 2023, Kesoram Industries Limited (KIL) intimated the stock exchanges that the board of directors of KIL, at its meeting held on November 30, 2023, approved a composite scheme of arrangement among KIL, UltraTech Cement Limited (UCL) and their respective shareholders and creditors for demerger of its cement division into UCL.

The aforementioned acquisition is cash neutral. KIL's shareholders will receive 1 equity share of UCL for every 52 equity shares of KIL. The transaction is expected to be consummated within 9-12 months subject to receipt of requisite approvals from various stakeholders and regulatory bodies. UCL is the largest cement manufacturer in India with an installed capacity of 137.9 million tonnes (including 5.4-MTPA capacity overseas). As of September 2023, UCL and its subsidiaries together have 24 integrated units, 29 grinding units, one white cement and three wall putty units, five jetties and eight bulk terminals across India and overseas.

ICRA takes note of the development and has placed the rating of [ICRA]BB+ outstanding on the issuer rating, Rs. 1,549.0-crore NCD and Rs. 190-crore fixed deposits of KIL on Watch with Developing Implications. ICRA will continue to monitor the developments and will take appropriate rating action as and when further details are available.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position, rating sensitivities: [Click here.](#)

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

Key financial indicators (audited)

KIL Standalone	FY2022	FY2023
Operating income (Rs. crore)	3,539.6	3,535.7
PAT (Rs. crore)	(130.0)	(115.7)
OPBDIT/OI (%)	15.5%	8.5%
PAT/OI (%)	(3.7%)	(3.3%)
Total outside liabilities/ Tangible net worth (times)	3.9	3.4
Total debt/OPBDIT (times)	3.1	5.7
Interest coverage (times)	1.1	0.7

Source: Company, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Amount in Rs. crore

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 March 31, 2023 (Rs. crore)	Date & Rating on	Date & Rating in 2023				Date & Rating in FY2022		Date & Rating in FY2021
						Dec 11, 2023	Mar 3, 2023	Nov 22, 2022	Jun 20, 2022	Mar 31, 2022	Feb 10, 2022	-
1	Issuer rating	Long Term	-	-	[ICRA]BB+; Rating Watch with Developing Implications	[ICRA]BB + (Stable)	[ICRA]BB B- (Negative)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	-	
2	NCD	Long Term	1549	1549	[ICRA]BB+; Rating Watch with Developing Implications	[ICRA]BB + (Stable)	[ICRA]BB B- (Negative)	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	-		
3	OCD	Long Term	-	Nil	-	-	[ICRA]BB B- (Negative); withdrawn	[ICRA]BB B- (Stable)	[ICRA]BB B- (Stable)	-		
4	Fixed deposits	Long Term	190	91	[ICRA]BB+; Rating Watch with Developing Implications	[ICRA]BB + (Stable)	[ICRA]BB B- (Negative)	[ICRA]BB B- (Stable)				

Complexity level of the rated instrument

Instrument	Complexity Indicator
Issuer rating	NA
NCD	Simple
Fixed deposits	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 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, is 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]BB+; Rating Watch with Developing Implications
INE087A07651	NCD	Mar-21	9.10% [#]	Feb-26	1549.0	[ICRA]BB+; Rating Watch with Developing Implications
NA	Fixed deposits	NA	NA	NA	190.0	[ICRA]BB+; Rating Watch with Developing Implications

Source: KIL

[#]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-II: List of entities considered for consolidated analysis: Not Applicable

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