

February 10, 2022 ^{Revised}

Kesoram Industries Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	NA	[ICRA]BBB- (Stable); assigned
Total	-	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating factors in the improving operating performance of Kesoram Industries Limited (KIL) as reflected in the increase in OPBIDTA/MT in FY2021 and H1 FY2022, which is expected to continue going forward. The rating also factors in the proceeds from KIL's rights issue of Rs. 393 crore as on January 2022 (including Rs. 50 crore of ICD infused by 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 prepay¹ optionally convertible debentures (OCDs) in January 2022.

In FY2022, ICRA expects KIL to report a sales volume growth of around 30%. Given the likely increase in volumes, improved sales realisations and better absorption of fixed costs, ICRA expects the OPBIDTA/MT to improve by ~20%-24% and the operating profits by 55%-60% in FY2022. While the input costs are likely to remain elevated and exert pressure on the OPBIDTA/MT, the focus on increasing the share of blended cement along with volumetric growth is likely to support the OPBIDTA/MT going forward. 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 in that period. Nonetheless, in H1 FY2022, the sales volume increased 58% YoY to 3.5 million MT, 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 the affordable housing and infrastructure segments.

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 given the high adjusted debt² levels of Rs. 2,516.0 crore³ as on March 31, 2021. 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 the company has prepaid OCDs worth Rs. 293.9 crore on January 31, 2022, the adjusted TD/OPBIDTA is likely to remain at ~3.6-4.0 times and the adjusted interest cover is expected to be ~2.0-2.5 times in FY2022.

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

² Adjusted debt refers to the actual debt outstanding as against the amortised cost figure reported as per the financial statements prepared as per IndAS accounting; adjusted interest cover takes into account cash coupon and premium as against the finance cost accrued as per the P&L statement

³ Book value of debt as on March 31, 2021 is Rs. 1849.3 crore

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 their ability to fund the incremental working capital requirements, should the need arise. Nonetheless, KIL has plans to refinance the existing debt over the next two quarters. ICRA also notes the cyclical nature 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.

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 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 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.

Expected improvement in operating performance 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 H1 FY2022 increased 58% YoY to 3.5 million MT and improved the liquidity post the one-time settlement with lenders in Q4 FY2021. In FY2022, ICRA expects KIL to report a sales volume growth of around 30% on a YoY basis. With an increase in volumes, improved sales realisations and better absorption of fixed costs, ICRA expects the OPBIDTA/MT to improve by ~20%-24% YoY in FY2022. While the input costs are likely to remain elevated and exert pressure on OPBIDTA/MT, the focus on increasing the share of blended cement along with volumetric growth is likely to support the OPBIDTA/MT going forward. 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 to support debt prepayments – The company launched a rights issue allotment in September 2021 and proceeds of around Rs. 393 crore have been received as on January 2022, which aided the liquidity position further. 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, albeit 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 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 ~3.6-4.0 times and the adjusted interest cover is expected to be ~2.0-2.5 times in FY2022. 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 debt over the next two quarters, which is likely to support the debt coverage metrics going forward.

Vulnerability of revenues to cyclical 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 and diesel. Given the elevated prices of coal and diesel, 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. 91.0 crore as on March 31, 2021 and rights issue proceeds of Rs. 393.0 crore were majorly used to repay NCDs of Rs. 55 crore and prepayment of 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 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, resulting in an improvement in the leverage and debt coverage metrics.

Negative factors – Negative pressure on KIL's ratings may arise if the revenues and earnings decline on a sustained basis, weakening the leverage, coverage 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. A specific credit metric of adjusted debt/OPBITDA greater than 3.5 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	H1FY2022
Operating Income (Rs. crore)	2,330.0	2,415.2	1,637.7
PAT (Rs. crore)	(485.5)	166.9	17.1
OPBDIT/OI (%)	9.8%	16.3%	19.5%
PAT/OI (%)	(20.8%)	6.9%	1.0%
Total Outside Liabilities/ Tangible Net Worth (times)	109.8	7.3	7.3
Total Debt/OPBDIT (times)	8.7	4.7	3.2
Interest Coverage (times)	0.7	1.6	1.3

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 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2018
					Feb 10, 2022			
1	Issuer Rating	Long Term	NA	-	[ICRA]BBB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Very 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)

Source: KIL

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

Corrigendum

Document dated February 10, 2022 has been revised with changes as below:

- The OCD scheduled repayment date has been rectified in the footnote on page number 1.

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