

June 14, 2024

Kesoram Industries Limited: Rating continues on Rating Watch with Developing Implications; issuer rating withdrawn and rated amount enhanced

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Issuer rating	-	-	[ICRA]BBB-; continues on Rating Watch with Developing Implications and withdrawn
Long-term- Fund-based - Term loans	-	1,530.0	[ICRA]BBB-; Rating Watch with Developing Implications; assigned
Fixed deposits	100.0	81.0	[ICRA]BBB-; continues on Rating Watch with Developing Implications
Long-term – Fund-based /non-fund based - Others	150.0	300.0	[ICRA]BBB-; continues on Rating Watch with Developing Implications
Long-term - Unallocated limits	150.0	-	-
Total	400.0	1,911.0	

*Instrument details are provided in Annexure-I

Rationale

The rating 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 against 2 years of residual tenure of the 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 decline in debt servicing burden in the near to medium term. The company reported an operating income (OI) of Rs. 3,743.1 crore in FY2024. ICRA expects the OI to report moderate growth in FY2025, driven by an increase in cement sales volumes. 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 and moderate OPBDITA/MT. Notwithstanding the decrease in OPBITDA/MT to Rs. 391/MT in Q4 FY2024 (Rs. 601/MT in Q3 FY2024), primarily due to decline in cement prices, KIL's OPBITDA/MT grew by 17% to Rs. 505/MT in FY2024 from Rs. 430/MT in FY2023. The company has recently received a sanction for Rs. 300-crore working capital line, which could facilitate flexibility in fuel procurement mix. Any favourable change in fuel mix and the resultant impact on its OPBITDA/MT will remain a key monitorable. KIL's total debt remained at Rs. 2,046.0 crore as of March 2024. With low repayments in the medium term as per the new debt structure and expected utilisation of recently sanctioned working capital limits, the debt and leverage levels are likely to remain elevated over the next two years. The rating continues to remain constrained by the cyclicity inherent in the cement industry, which leads to variability in profitability and cash flows. The company's creditors remained high as of March 2024. However, the same is anticipated to decline over the medium term, supported by availability of working capital limits. This apart, any incremental investments or support to subsidiaries or Group companies by KIL will remain a key monitorable.

The rating continues to remain on Watch with Developing Implications following 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. ICRA will continue to monitor the developments and will take appropriate rating action as and when further details are available.

The issuer rating has been withdrawn based on the request from the company and in line with ICRA's policy on withdrawal of ratings.

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 the decline in OPBITDA/MT to Rs. 391/MT in Q4 FY2024 (Rs. 601/MT in Q3 FY2024), primarily due to reduction in cement prices, KIL's OPBITDA/MT grew by 17% to Rs. 505/MT in FY2024 from Rs. 430/MT in FY2023. The company has recently received a sanction for Rs. 300-crore working capital line, which could facilitate flexibility in fuel procurement mix. Any favourable change in fuel mix and the resultant impact on its OPBITDA/MT will remain a key monitorable. KIL's total debt remained at Rs. 2,046.0 crore as of March 2024. With low repayments in the medium term as per the new debt structure and expected utilisation of the recently sanctioned working capital limits, the debt and leverage levels are likely to remain elevated over the next two years. The company's creditors remained high as of March 2024. However, the same is anticipated to decrease over the medium term, supported by availability of working capital limits.

Vulnerability of revenues to cyclical 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 balance and liquid investments of around Rs. 93.8 crore as of March 2024. It has scheduled repayments of Rs. 68.4 crore in FY2025, majority of which need to be serviced in Q4 FY2025 and can be serviced through its estimated cash flows from operations. Further, KIL has moderate capex plans in FY2025, which is expected to be funded by its internal accruals.

Rating sensitivities

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

Negative factors – The rating 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 if 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 Policy on Withdrawal of Credit Ratings
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)

	FY2023	FY2024
Operating income	3,535.7	3,743.1
PAT	-115.7	- 331.7
OPBDIT/OI	8.6%	10.1%
PAT/OI	-3.3%	-8.9%
Total outside liabilities/Tangible net worth (times)	3.4	8.3
Total debt/OPBDIT (times)	5.7	5.4
Interest coverage (times)	0.7	0.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations

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 (FY2025)				Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	Amount outstanding as on May 26, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024				Date & rating in FY2023			Date & rating in FY2022
				Jun 14, 2024	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; withdrawn	[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	81.0	81.0	[ICRA]BBB-; Rating Watch with Developing Implications	[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	300.0	300.0	[ICRA]BBB-; Rating Watch with Developing Implications	[ICRA]BBB-; Rating Watch with Developing Implications	-	-	-	-	-	-	-
6 Unallocated limits	Long term	-	-	-	[ICRA]BBB-; Rating Watch with Developing Implications	-	-	-	-	-	-	-
7 Fund-based - Term loans	Long term	1,530.0	1,530.0	[ICRA]BBB-; Rating Watch with Developing Implications	-	-	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed deposits	Simple
Fund-based - Term loans	Simple
Fund-based /Non-fund based - Others	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 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; withdrawn
NA	Long-term- Fund-based - Term loans	FY2024	11.25%	FY2034	1,530.0	[ICRA]BBB-; Rating Watch with Developing Implications
NA	Fixed deposits	NA	NA	NA	81.0	[ICRA]BBB-; Rating Watch with Developing Implications
NA	Fund-based /Non-fund based - Others	NA	NA	NA	300.0	[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

ANALYST CONTACTS

Rajeshwar Burla

+91 40 6939 6443

rajeshwar.burla@icraindia.com

Tushar Bharambe

+91 22 6169 3347

tushar.bharambe@icraindia.com

Anupama Reddy

+91 40 6939 6427

anupama.reddy@icraindia.com

Hemanth Vasishta Attaluri

+91 40 6939 6419

vasishta.attaluri@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

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

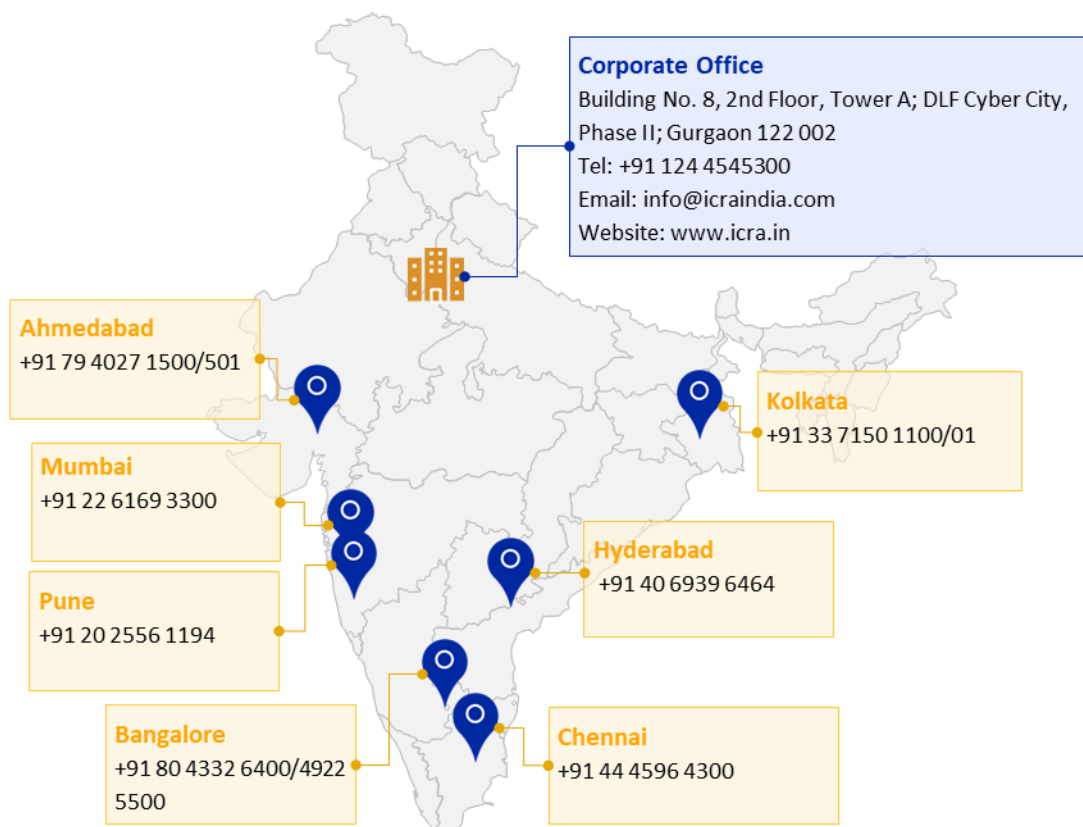


Registered Office

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



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.