

## Rating Advisory

November 03, 2022 | Mumbai

### Kesoram Industries Limited

**Update as on November 03, 2022**

This rating advisory is provided in relation to the rating of Kesoram Industries Limited

The key rating sensitivity factors for the rating include:

#### Upward factors

- Successful and timely completion of refinancing of its existing debt at a significantly lower all-inclusive rate of interest
- Improvement in financial risk profile marked by interest coverage ratio to above 2 times
- Improved operating performance leading to higher-than-expected net cash accrual

#### Downward factors

- Subdued operating performance leading to deterioration of debt protection metrics marked by interest coverage below 1.5
- Tightening of liquidity due to stretched working capital cycle

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Kesoram Industries Limited (KIL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, [https://www.crisil.com/content/dam/crisil/criteria\\_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf](https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf))

If KIL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

#### About the Company

KIL, part of the B K Birla group of companies, is a diversified conglomerate that manufactures cement and rayon. Cement manufacturing is the primary business of the company. KIL's cement units have an aggregate capacity of 10.75 mtpa and are in Karnataka and Telangana. Post demise of Mr B K Birla the company is managed by Ms Manjushree Khaitan who is currently chairman of the company.

Earlier, during fiscal 2020, the National Company Law Tribunal has approved demerger of the tyre business of KIL on November 08, 2019, and the scheme became effective from December 04, 2019, with appointed date being January 01, 2019.

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For the nine months ended December 31, 2021, KIL reported a profit after tax (PAT) of Rs 49 crore and operating income of Rs 2,513 crore, against Rs 126 crore and Rs 1,627 crore, respectively, for the corresponding period previous fiscal.

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## Rating Rationale

March 22, 2022 | Mumbai

### Kesoram Industries Limited

*Rating outlook revised to 'Positive'; Rating Reaffirmed*

#### Rating Action

Rs.400 Crore Optionally Convertible Debentures	CRISIL BB+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.60 Crore Optionally Convertible Debentures	CRISIL BB+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.1650 Crore Non Convertible Debentures	CRISIL BB+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)
Rs.90 Crore Non Convertible Debentures	CRISIL BB+/Positive (Outlook revised from 'Stable'; Rating Reaffirmed)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has revised its outlook on the optionally convertible debentures (OCDs) and non-convertible debentures (NCDs) of Kesoram Industries Ltd (KIL) to **'Positive'** from 'Stable' and reaffirmed the rating at **'CRISIL BB+'**.

The revision in outlook reflects CRISIL Ratings' expectation that KIL's credit risk profile may improve in the near term. The company is in advance stage of discussions with potential investors and evaluating to refinance its entire high-cost debt at a significantly lower interest rate in 2-3 months' time. This may improve its interest coverage and debt service coverage ratios on a sustainable basis and in-turn result in improvement in the financial risk profile and, thus, is a key monitorable.

KIL has reported earnings before interest tax depreciation and amortization (EBITDA) of Rs 437 crore during nine months of fiscal 2022 against Rs 275 crore during the corresponding period of previous fiscal. CRISIL Ratings expects the improved operating performance of KIL to sustain over the medium term. Furthermore, Rs 400 crore of proceeds from rights issue would enable KIL to prepay OCDs aggregating Rs 459.90 crore by March 2022, originally scheduled to be repaid in August 2022, resulting in accelerated deleveraging. Out of this, KIL has partly redeemed Rs 294 crore of OCDs as of January 31, 2022.

The ratings reflect KIL's established market position in the cement industry and improved operating performance. These strengths are partially offset by modest yet improving financial risk profile, exposure to refinancing risk and exposure to cyclicity in the cement industry.

#### Analytical Approach

- To arrive at its rating, CRISIL Ratings has considered the standalone business and financial risk profiles of KIL. This is because the corporate guarantee extended by the company to the debt of subsidiary, Cygnet Industries Ltd (Cygnet), had fallen off and there are restrictive clauses as per the terms of the NCDs/OCDs for extending support to group companies (including Cygnet) without the prior approval of the debenture trustee. Also, both entities operate in different business line with minimal operational linkages. CRISIL Ratings understands that KIL would not extend support to Cygnet.
- CRISIL Ratings has deducted the exposure to Cygnet (equity investment and loans and advances) from KIL's networth to calculate its adjusted networkth.
- CRISIL Ratings has treated Optionally Convertible Redeemable Preference Shares (OCRPS) issued to lenders as debt.

#### Key Rating Drivers & Detailed Description

##### Strengths

**\* Established market position in the cement industry:** The company has aggregate cement grinding capacity of 10.75 million tonne per annum (mtpa) in Karnataka and Telangana, with key markets being the southern and western regions. Furthermore, abundant availability of limestone at the captive mine and captive power generation results in operational

efficiency. Benefits from the promoters' experience of over four decades, their strong understanding of local market dynamics, and healthy relationships with customers and suppliers should continue to support the business.

**\* Improved operating performance:** Operating performance has improved significantly, with around 58% year-on-year increase in sales volume to 5.27 mtpa during the nine months of fiscal 2022. Profitability also improved, with Ebitda per tonne at Rs 830 in the nine months of fiscal 2022 vis-à-vis Rs 756 in the corresponding period of fiscal 2021 following improved realisations and better cost control. Higher volumes and improved EBITDA per tonne has resulted in absolute EBITDA growing by around 60% y-o-y during nine months of fiscal 2022.

#### **Weaknesses**

**\* Modest yet improving financial risk profile, exposure to refinancing risk:** KIL's financial risk profile is marked by high gearing and modest debt protection metrics, even though fund raising through rights issue is expected to improve the networth by end of fiscal 2022. Gearing (total debt/adjusted networth) is expected to remain above 7 times as on March 31, 2022 even after factoring prepayment of OCDs worth Rs 459.90 crore which is originally scheduled to be repaid in August 2022, while interest coverage ratio (accrual basis) is expected to remain below 1.5 times for fiscal 2022.

However, CRISIL Ratings has noted that refinancing is expected to be concluded in the next 2-3 months which could help KIL lower its coupon rate and in turn could improve interest coverage and debt service coverage ratios on a sustainable basis.

**\* Exposure to cyclicity in the cement industry:** Cement players are susceptible to volatility in input cost due to operating leverage in the cost structure. Furthermore, intense competition may continue to constrain scalability, pricing power and profitability. Capacity additions in the commoditised cement industry tend to be sporadic because of long gestation periods associated with setting up new facilities, and many players adding capacities during the peak of a cycle. This has led to unfavourable price cycles for the sector in the past. Cyclical downturns in the industry result in slow sales, thereby constraining operating rate and ability to pass on any rise in input costs.

#### **Liquidity Adequate**

Unencumbered cash and equivalent of around Rs 116 crore as of September 30, 2021 along with cash accruals to be generated which would be adequate to meet KIL's working capital requirement, prepayment of OCD worth Rs 459.90 crore by March 2022, originally scheduled to be repaid in August 2022, and routine capex requirement. Further there are no major repayment obligation over the medium term apart from OCD prepayment planned except in case of refinancing of debt. In absence of any working capital lines, efficient management of working capital cycle remains crucial.

#### **Outlook Positive**

CRISIL Ratings believes that KIL's credit risk profile may improve upon successful completion of refinancing of its current high-cost debt in the near term while sustaining the operating performance.

#### **Rating Sensitivity factors**

##### **Upward factors**

- Successful and timely completion of refinancing of its existing debt at a significantly lower all-inclusive rate of interest
- Improvement in financial risk profile marked by interest coverage ratio to above 2 times
- Improved operating performance leading to higher-than-expected net cash accrual

##### **Downward factors**

- Subdued operating performance leading to deterioration of debt protection metrics marked by interest coverage below 1.5
- Tightening of liquidity due to stretched working capital cycle

#### **About the Company**

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For the nine months ended December 31, 2021, KIL reported a profit after tax (PAT) of Rs 49 crore and operating income of Rs 2,513 crore, against Rs 126 crore and Rs 1,627 crore, respectively, for the corresponding period previous fiscal.

#### **Key Financial Indicators**

Particulars	Unit	2021	2020
Revenue	Rs crore	2415	2330
PAT	Rs crore	167	-486

PAT margin	%	6.9	-20.8
Adjusted debt/adjusted networkth	Times	-7.5	-4.4
Adjusted interest coverage	Times	2.02	0.98

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Cr)	Complexity Levels	Rating Assigned with Outlook
INE087A07651	Non-Convertible Debentures	NA	9.10%#&	28-Feb-26	1603.5	Simple	CRISIL BB+/Positive
NA	Non-Convertible Debentures*	NA	NA	NA	136.5	Simple	CRISIL BB+/Positive
INE087A07669	Optionally Convertible Debentures	NA	8.70%#	30-Aug-22	459.9	Simple	CRISIL BB+/Positive
NA	Optionally Convertible Debentures*	NA	NA	NA	0.1	Simple	CRISIL BB+/Positive

\*These instruments are yet to be placed

# Payable on a monthly basis

& 9.10% for 1-18 months, 11.30% for 19-36 months and 13.10% 37<sup>th</sup> month onwards till maturity and redemption premium to maintain the overall XIRR of 20.75%

**Annexure - Rating History for last 3 Years**

Current				2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	1740.0	CRISIL BB+/Positive		--	27-12-21	CRISIL BB+/Stable	24-12-20	CRISIL D		--	--
					--	14-06-21	CRISIL B/Stable	16-12-20	CRISIL D		--	--
					--		--	04-09-20	CRISIL D		--	--
Optionally Convertible Debentures	LT	460.0	CRISIL BB+/Positive		--	27-12-21	CRISIL BB+/Stable	24-12-20	CRISIL D		--	--
					--	14-06-21	CRISIL B/Stable	16-12-20	CRISIL D		--	--

All amounts are in Rs.Cr.

**Criteria Details**

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Cement Industry</a>
<a href="#">Understanding CRISILs Ratings and Rating Scales</a>

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