Rating Rationale

16 Feb 2024

KIOCL Limited

Brickwork Ratings reaffirm rating of KIOCL Limited's long term and short term bank loan facilities of Rs. 1608.00 Crs. The outlook continues to be Negative.

Particulars

Facilities/ Instrument**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (18 Nov2022)	Present
Fund Based Term Loan**	558.00	**558.00**	Long Term	BWR A+/Negative Assigned	**BWR A+/Negative Reaffirmed**
Fund Based Cash Credit/Overdraft	(15.00)	**(15.00)**	Long Term	BWR A+/Negative Downgrade	**BWR A+/Negative Reaffirmed**
Non Fund Based Letter of Credit/Bank Guarantee /Derivative Limits	1050.00	**1050.00**	Short Term	BWR A1+ Reaffirmed	**BWR A1+ Reaffirmed**
Total	1608.00	**1608.00**	**Rupees One Thousand and Six Hundred and Eight Crores Only**		

*Please refer to BWR website **www.brickworkratings.com/** for the definition of the ratings
** Details of Bank facility is provided in Annexure-I
**This rating pertains to an existing assignment received prior to 06 October 2022

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) reaffirms the long term and short term rating of KIOCL Limited (KIOCL or the company) at BWR A+ and A1+ respectively. The outlook continues to remain Negative driven mainly by continued operating losses during 9MFY24 despite an improvement in the financial performance during Q3FY24 .
The ratings continue to factor-in the strengths such as the established track record & flagship company of Government of India, experienced & qualified management, minimal external debt and adequate liquidity in the form of cash & cash equivalents. However, these strengths are offset by weak performance owing to volatility in both its raw material and finished product prices due to their commoditised nature leading to operational losses over the consecutive four quarters until 1HFY24

The Company's outlook continues to be Negative owing to continued volatility and losses in its financial performance. BWR notes that KIOCL's operations turned profitable during Q3FY24. Profitable operations on a sustainable basis and improved control over raw material price volatility through operationalisation of its own mines would be factors which would be considered to revise the outlook to stable.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: The terms of sanction normally include standard covenants stipulated for bank loan facilities. For the term loan sanctioned from Canara Bank, the lender stipulated DSRA to be maintained of one quarter principal and interest payment.

KEY RATING DRIVERS

Credit Strengths-:

- **Established track record and flagship company of Government of India (GoI):** KIOCL Limited, a flagship company under the Ministry of Steel, GoI, with a Mini Ratna status, was formed on 2 April 1976. KIOCL started its pellet operations in 1987 and has established a market presence in India and abroad. Currently, it is the second-largest merchant pellet plant in India with an annual capacity of 3.5 million tonnes per annum (MTPA). It is of strategic importance to the GoI as it is the fourth largest exporter of pellets from India.
- **Experienced and qualified management:** The Company's senior management has extensive experience in the iron ore mining and pellet manufacturing business, which not only improves KIOCL's competitive position but also provides it with an alternate revenue stream in the form of mineral exploration and Operation and Maintenance (O&M) contracts.
- **Comfortable capital structure:** KIOCL's borrowing levels are expected to remain modest over the short to medium term, as only the iron ore and coke oven projects are operational. The net debt stood at Rs. 34.28 Crs. as against tangible networth of Rs. 1282.50 Crs. as on H1FY2024 (H1FY2023: Rs. 1,743.25 Crs. Moreover, the Company also didnot utilizes any of its rated fund based limits and instead availed fixed deposit backed overdraft loans as on need basis. The debt equity ratio stood at 0.05x whereas TOL/TNW stood comfortable at 0.47x as on September 30, 2023. The debt levels are expected to remain modest over the short to medium term.

Credit Risks-:

- **Losses incurred during 9MFY24:** As per the financials during 9MFY24, despite the revenues of the company improved and stood at Rs. 1482.16 Crs (9MFY23: Rs. 808.68 Crs) it continued to incur losses at the operating and net level. The operating and net losses in 9MFY24 reduced and stood at Rs. 46.99 Crs. and Rs. 40.41 Crs as compared to the losses made during 9MFY23. The Company's operations in the past were impacted due to imposition of the export duty on the iron ore pellets (45% in May 2022), scarcity/ non-availability of raw materials i.e. iron ore fines and shutting down for operations & maintenance. The tangible net worth declined and stood at Rs. 1,282.50 Crs. during H1FY24 (H1FY23: Rs. 1743.25 Crs) due to losses incurred while cash & cash equivalents depleted and stood Rs. 458.55 Crs during H1FY24 (H1FY23: 961.31 Crs.).

- **Risks related to volatility in iron ore & pellet prices coupled with foreign exchange fluctuation risk:** KIOCL's profitability is exposed to fluctuations in raw material prices viz. iron ore fines, due to its commodity nature. Further, regulatory actions by the GOI, like the imposition of export duty in FY2023, also impact its financial performance. Exports accounted for more than 95% of KIOCL's total sales in FY23 and in 9MFY24 and thus exposing it to foreign exchange fluctuation risk and thus adopting proper hedging mechanis is critical.
- **Timely commissioning of the iron ore mines will lead to significant improvement in the cost effectiveness:** Currently, KIOCL procures iron ore mainly from NMDC Chhattisgarh, thus resulting in higher raw material and freight costs and also exposes it to price volatility risk. The Company has a captive iron ore mine situated at Devadari and is awaiting a few clearance before starting mining operations and is hopeful of starting this by mid-FY25. Once operational, it would enable significant cost optimization of the company's operations. Any material time and cost overruns in operationalising the Devadari iron ore mine will have a bearing on KIOCL's business operations.
- **Environmental & Social risks:** Pellet manufacturing process requires usage of fossil fuels, which results in greenhouse gas emissions, industrial waste generation, and environmental pollution. KIOCL has proactively taken steps like increase in green cover in the plant area, adoption of energy conservation measures, transition to renewable sources of power by setting up rooftop and ground-based solar panels etc. Social risks for pellet manufacturers are derived from health and safety aspects of employees involved. Casualties/accidents at the operating units due to gaps in safety practices could lead to production outages for steel manufacturers like KIOCL and invite penal actions from regulatory bodies.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has relied on the company's standalone financials. BWR has applied its rating methodology as detailed in the Rating Criteria.

RATING SENSITIVITIES:

Going forward, the ability of the company to maintain the profitability in line with the previous years and to obtain the timely approval of the licenses for mining operations in Karnataka.

Positive:

- The outlook of the company can revise to stable if the company continues to report operating profits on a consistent basis for atleast next two quarters while maintaining the current credit profile.

Negative:

- The ratings can move downward if there is a decline in the financial performance of the company leading to huge operating and net losses on sustained basis.
- Major debt funded capex leading to deterioration in the credit profile of the Company measured as total debt/ TNW of more than 1.5x.

LIQUIDITY: ADEQUATE

C&CE as on 30th Sept 23 stood at Rs. 458.55 Crs. (Rs. 773.29 Crs as on 31st March 23). During 3Q24, net cash accruals was Rs 45.81 Crs. Aganist this the company does not have any debt servicing liability except financial/ interest charges over the next twelve months. Further, the company has not drawn down any of its sanctioned working capital limits and has aviled only Rs. 30.83 Crs out of the sanctioned term loan of Rs. 558 Crs. The repayment obligations on these term loan are to commence from the last quarter of FY 2026.

ABOUT THE COMPANY

KIOCL Limited erstwhile Kudremukh Iron Ore Company Limited (hereinafter referred to as 'KIOCL' or 'the Company') is a flagship company under the Ministry of Steel, Government of India (GoI). It was formed on 2nd April 1976 for mining and the beneficiation of low-grade iron ore at Kudremukh, Karnataka, India. It is classified under the Mini Ratna category. It manufactures DR-grade pellets and has the manufacturing facilities to operate a 3.5 MTPA iron-oxide pellet plant and blast furnace unit to manufacture pig iron at Mangalore, Karnataka. Apart from the manufacturing facilities, the company also operates in O&M activities related to extraction. KIOCL is a listed on the Bombay Stock Exchange (BSE) National Stock Exchange (NSE) and Metropolitian Stock Exchange of India Ltd. (MSEL).

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY22	FY 23	9MFY24
Result Type		**Audited**	**Audited**	**Unaudited**
Operating Revenue	Rs. Crs	3012.06	1547.80	1482.16
EBITDA	Rs.Crs	385.93	-159.74	-46.99
Net profit	Rs. Crs	313.41	-97.67	-40.41
Tangible Net worth	Rs. Crs	1958.28	1359.74	DNA
Total Debt/Tangible Net worth	In Times	0.00	0.30	DNA
Current Ratio	In Times	6.62	2.65	DNA

**DNA: Data Not Available.*

NON COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: NIL

Rating History for the previous three years (Including withdrawal and suspended)

S.No	Instrument /Facility	Current Rating (2024)			Chronology of Rating History for the past 3 years (Rating assigned and press release date) along with outlook/watch, if applicable				
		Type (Long Term/ Short Term)	Amount (Rs. Crs)	Rating	Date(s) & Rating(s) assigned in 2022 (18 Nov 2022)	Date(s) & Rating(s) assigned in 2022 (19 Aug 2022)	Date(s) & Rating(s) assigned in 2021 (27 Jul 2021)	Date(s) & Rating(s) assigned in 2020	Date(s) & Rating(s) assigned in 2019
1	**Fund Based**	Long Term	558.00	BWR A+/Negative Reaffirmed	BWR A+/Negative Assignment	--	--	--	--
2	**Fund Based**	Long Term	(15.00)	BWR A+/Negative Reaffirmed	BWR A+/Negative Downgrade	BWR AA-/Negative Reaffirmation and change in outlook	BWR AA-/Stable Assignment	--	--
3	**Non Fund Based**	Short Term	1050.00	BWR A1+ Reaffirmed	BWR A1+ Reaffirmation	BWR A1+ Reaffirmation	BWR A1+ Assignment	--	--
Total			**1608.00**	**Rupees One Thousand and Six Hundred and Eight Crores Only**					

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com / download / ComplexityLevels.pdf. Investors]' queries can be sent to [info@brickworkratings.com].

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

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Annexure-I
Details of Bank Loan Facilities rated by BWR

S.No	Name of the Bank/Lender	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Canara Bank	Term Loan	558.00	--	558.00
2	ICICI Bank	*Overdraft (Sublimit of LC)*	*(5.00)*	--	*(5.00)*
3	Yes Bank	*Cash Credit (Sublimit of LC)*	*(4.00)*	--	*(4.00)*
		Working Capital Demand Loan (Sublimit of LC)	*(6.00)*	--	*(6.00)*
4	HDFC Bank	Letter of Credit	--	125.00	125.00
		Bank Guarantee (Sublimit of LC)	--	*(125.00)*	*(125.00)*
		Forward Contract	--	25.00	25.00
5	ICICI Bank	Letter of Credit	--	65.00	65.00
		Derivative Limit	--	15.00	15.00
5	IndusInd Bank	Standby Line of Credit	--	5.00	5.00
		Bank Guarantee	--	60.00	60.00
		Letter of Credit	--	110.00	110.00
		Forward Contract	--	15.00	15.00
6	Yes Bank	Letter of Credit	--	75.00	75.00
		Sublimit (Letter of Credit) ● *Bank Guarantee* ● *Packing Credit* ● *Post Shipment Finance*	--	*(30.00)* *(15.00)* *(15.00)*	*(30.00)* *(15.00)* *(15.00)*

		Forward Contract	--	25.00	25.00
7	United Portion	BG/ILC - Proposed	--	520.00	520.00
		Total	**558.00**	**1050.00**	**1608.00**
Rupees One Thousand and Six Hundred and Eight Crores Only					

Annexure-II

Details of NCDs rated by BWR

Not Applicable

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