

Rating Rationale

23 Sep 2024

KIOCL Limited

Brickwork Ratings downgrades rating of KIOCL Limited's long term and short term bank loan facilities of Rs. 1,608.00 Crs. The outlook continues to be Negative.

Particulars

Facilities/ Instrument**	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (16 Feb 2024)	Present
Fund Based Term Loan**	558.00	558.00	Long Term	BWR A+/Negative Reaffirmed	BWR A/Negative/ Downgrade
Fund Based Cash Credit/Overdraft	(15.00)	(15.00)	Long Term	BWR A+/Negative Reaffirmed	BWR A/Negative/ Downgrade
Non Fund Based Letter of Credit/Bank Guarantee /Derivative Limits	1050.00	1050.00	Short Term	BWR A1+ Reaffirmed	BWR A2+/ Downgrade
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-1

**This rating pertains to an existing assignment received prior to 06 October 2022

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) downgrades the long term and short term rating of KIOCL Limited (KIOCL or the company) to BWR A and A2+ respectively. The outlook continues to remain Negative. The rating action is driven primarily by continued operating losses since the last four out of the five quarters, frequent plant shutdowns for the elongated periods due to unfavorable market conditions and uneconomical operations due to dependence on NMDC for supply of raw material and no progress on planned capex and fast approaching DCCO (30th Sep 24). The plant is currently closed and no information is available in commencement of its operations have led to deterioration of the financial profile of the Company.

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.

The Company's outlook continues to be Negative owing to continued volatility in the financial performance due to frequent shutdown of its manufacturing facility thus incurring losses in its financial performance.

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 Risks:-

- **Losses incurred during FY24 & Q1FY25:** As per the financials, the Company incurred net losses to the tune of Rs. (83.31) Crs. in FY24 and during Q1FY25, Rs. (50.72) Crs. The Company's revenues during Q1FY25 stood at Rs. 147.37 Crs. as against Rs. 372.10 Crs during Q4FY24 and Rs. 501.44 Crs during Q1FY24. The Company also incurred losses at the EBIDTA level due to frequent shut down of the manufacturing plant. The tangible net worth declined and stood at Rs. 1,278.53 Crs. during FY24 (FY23: Rs. 1,359.74 Crs.) while cash & cash equivalents depleted and stood Rs. 456.95 Crs during FY24 (FY23: Rs. 773.29 Crs.).
- **Existing cost structure leading to loss-making operations:** The current cost structure of KIOCL comprises high incidence of fixed-employee cost, significant freight costs associated with procuring iron ore. This has exerted pressure on the profitability margins of the Company and has thus resulted in operating losses for the Company during FY24 & Q1FY25. Further, frequent breakdowns in the factory's operations owing to subdued demand and other factors which are beyond the control of the management. Thus the company's ability to remain profitable by absorbing cost pressures in case from all the aforesaid factors remains critical.
- **Exposure to risks associated with volatility in iron ore and pellet prices:** KIOCL's profitability is exposed to fluctuations in raw material prices viz. iron ore fines, whose prices are determined by the demand supply factors and beyond the control of the management. Further, regulatory actions by the GOI, (like the imposition of export duty in FY2023), also hampered the 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 thus increasing regulatory requirements to reduce greenhouse gas emissions and stricter air pollution standards which may lead to higher costs to the Company over the medium term. KIOCL has proactively taken various steps to address various environmental issues which has helped the company to control overall greenhouse gas emissions. Social risks for pellet manufacturers are derived from the 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. The sector is exposed to environmental risks and labor-related risks and any inability to efficiently handle environmental & social risks can lead to regulatory actions from the Government, protests/social issues with local communities and local criticism thus potentially impacting the operations of the company.

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 operation 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 Company is scouting for a JV partner to aid the Company financially as well as technically for its future capex related plans. The total debt stood at Rs. 63.76 Crs. as against tangible networth of Rs. 1,278.53 Crs. as on 31st March 2024. The debt equity ratio stood at 0.05x whereas TOL/TNW stood comfortable at 0.41x as on 31st March 2024. The debt levels are expected to remain modest over the short to medium term.

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:

Positive:

- Going forward, the ability of the company to achieve profitability on a sustained basis leading to further improvement in the liquidity profile.
- Increase in capacity utilisation on a sustained basis
- The outlook of the company can revise to stable if the company continues to report operating profits on a consistent basis for at least next two quarters.

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

Cash & Cash Equivalents as on 31st March 24 stood at Rs. 456.95 Crs. (Rs. 773.29 Crs as on 31st March 23). The Company has been sanctioned term loan of Rs. 558 Crs while it has availed term loan of Rs. 30.83 Crs. as per FY24 financials. The repayment obligations are to commence



from the last quarter of FY 2026. Further, there is no obligation to pay the dividends over the immediate future. Cash & cash equivalents stood at Rs. 491.42 as on 30th July 24 due to cash released from working capital cycle as the Company has incurred operating losses.

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 listed on the Bombay Stock Exchange (BSE) National Stock Exchange (NSE) and Metropolitan Stock Exchange of India Ltd. (MSEL).

KEY FINANCIAL INDICATORS

Key Parameters	Units	FY22	FY 23	FY24
Result Type		Audited	Audited	Audited
Operating Revenue	Rs. Crs	3,012.06	1,547.80	1,854.07
EBITDA	Rs.Crs	385.93	(159.74)	(72.68)
Net profit	Rs. Crs	313.41	(97.67)	(83.31)
Tangible Net worth	Rs. Crs	1,860.36	1,359.74	1,278.53
Total Debt/Tangible Net worth	In Times	0.01	0.31	0.05
Current Ratio	In Times	6.57	2.65	4.42

**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 Cr)	Rating	Date(s) & Rating(s) assigned in 2022 (16 Feb 2024)	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/Downgrade	BWR A+/Negative Reaffirmed	BWR A+/Negative Assignment	--	--	--	--
2	Fund Based	Long Term	(15.00)	BWR A/Negative/Downgrade	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 A2+/Downgrade	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						

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. Cr)#	Total (Rs. Crs)	Complexity of instrument
1	Canara Bank	Term Loan	558.00	--	558.00	Simple
2	ICICI Bank	<i>Overdraft (Sublimit of LC)</i>	<i>(5.00)</i>	--	<i>(5.00)</i>	Simple
3	Yes Bank	<i>Cash Credit (Sublimit of LC)</i>	<i>(4.00)</i>	--	<i>(4.00)</i>	Simple
		<i>Working Capital Demand Loan (Sublimit of LC)</i>	<i>(6.00)</i>	--	<i>(6.00)</i>	Simple
4	HDFC Bank	Letter of Credit	--	125.00	125.00	Simple
		<i>Bank Guarantee (Sublimit of LC)</i>	--	<i>(125.00)</i>	<i>(125.00)</i>	Simple
		Forward Contract	--	25.00	25.00	Simple
5	ICICI Bank	Letter of Credit	--	65.00	65.00	Simple
		Derivative Limit	--	15.00	15.00	Simple
5	IndusInd Bank	Standby Line of Credit	--	15.00	5.00	Simple
		Bank Guarantee	--	60.00	60.00	Simple
		Letter of Credit	--	110.00	110.00	Simple
		Forward Contract	--	15.00	15.00	Simple
6	Yes Bank	Letter of Credit	--	75.00	75.00	Simple
		Sublimit (Letter of Credit)	--			Simple
		<ul style="list-style-type: none"> ● <i>Bank Guarantee</i> ● <i>Packing Credit</i> ● <i>Post Shipment Finance</i> 	--	<i>(30.00)</i> <i>(15.00)</i> <i>(15.00)</i>	<i>(30.00)</i> <i>(15.00)</i> <i>(15.00)</i>	
		Forward Contract	--	25.00	25.00	
7	United Portion	BG/ILC - Proposed	--	520.00	520.00	Simple
		Total	558.00	1050.00	1608.00	
Rupees One Thousand and Six Hundred and Eight Crores Only						



#comprises sub-limits.

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.

Annexure-II
Details of NCDs rated by BWR
Not Applicable

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