

Press Release

The Kolhapur Steel Limited

March 27, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs. 10.00 crore bank facilities of The Kolhapur Steel Limited. The outlook is '**Stable**'.

The Kolhapur Steel Limited (TKSL) established in 1965 was taken over by the Kirloskar group in 2007. TKSL, a subsidiary of Kirloskar Brothers Limited (KBL) is engaged in the manufacturing of steel castings used in pumps, valves, turbines (steam and hydro) among others.

Key Rating Drivers

Strengths

- **Operational and financial support from The Kirloskar Group**

TKSL, set up in 1965 was taken over by the Kirloskar Group in 2007. KBL holds 96 per cent stake in TKSL. The board of directors of TKSL comprises external professionals and representatives from KBL. Mr.Chittaranjan Mate, Chairman of TKSL is a member of the Board of Directors of KBL. TKSL derives significant operating synergies by virtue of being a part of the Kirloskar Group. The company benefits from the common supplier of raw materials who also supplies to KBL. The company's offtake risk is also significantly mitigated since it derives around 60 percent of its revenues from Kirloskar group companies - Kirloskar Brothers Ltd and Kirloskar Ebara Pumps Limited. Apart from operational synergies, the Kirloskar Group has also supported TKSL by infusion of funds at regular intervals in the form of unsecured loans and preference shares. In FY2016, the Kirloskar group infused Rs.25 cr by way of preference shares in TKSL which were converted to equity shares in FY2017. SMERA believes that TKSL will benefit from its association with the Kirloskar Group over the near to medium term.

- **Reputed customer base**

TKSL derives around 60 percent of its revenue from KBL and Kirloskar Ebara Pumps Ltd. Additionally, the company has a reputed client base with customers like BHEL, Rolls Royce, L&T and Siemens. SMERA believes that the business risk profile will be supported by its established relations with reputed customers.

Weaknesses

- **Weak operating metrics and moderate scale of operations**

TKSL has been suffering operating losses over the past few years mainly on account of sub optimal scale of operations coupled with high wastages and rejections. Further, TKSL registered operating loss of Rs.2.18 cr in FY2015-16 as compared to Rs.8.55 cr in FY2014-15. The net loss for FY2016 was Rs.5.28 cr and Rs.9.41 cr in the previous year. The continuous losses have resulted in an erosion in the networth which stood at (-) Rs.23.97 cr as on 31 March, 2016. KBL had infused Rs.15 cr by way of preference shares in FY2015 and an additional Rs. 10 cr in FY2016. The amount of Rs 25 cr has been converted to equity in FY2017. The company is expected to incur net losses in FY2017 also, albeit at a

much lower level. Hence, no significant improvement in the financial risk profile is expected over the near term. SMERA believes that the financial risk profile of TKSL would be below average till it is able to demonstrate a significant and sustainable improvement in its profitability. SMERA further believes that the Kirloskar Group will continue to support TKSL over the near to medium term.

Analytical Approach

SMERA has considered the standalone financials of TKSL and has also factored in support from parent i.e. KBL while arriving at the rating.

Outlook: Stable

SMERA believes that TKSL will maintain a stable outlook over the medium term owing to its established operations and experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues and profits while maintaining debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile or stretch in the working capital cycle.

About the Group

Kirloskar Brother Limited (KBL) was incorporated in 1920 and is the flagship company of the Kirloskar group. KBL holds ~96 percent stake in TKSL. The company undertakes infrastructure projects related to water supply, power plants and irrigation. The group is also engaged in the manufacture of industrial pumps, agricultural and domestic pumps, valves, motors and hydro turbines.

About the Rated Entity - Key Financials

For FY2015-16, TKSL reported profit after tax (PAT) of Rs. (5.25) cr on operating income of Rs.39.15 cr as compared with PAT of Rs. (9.41) cr on operating income of Rs.30.54 cr for FY2014-15. The net worth as on 31 March 2016 stood at (23.97) cr as compared to (18.73) cr as on 31 March 2015.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Criteria For Group And Parent Support - <https://www.smera.in/criteria-group.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB- / Stable

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ABOUT SMERA

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