Press Release

The Kolhapur Steel Limited

May 15, 2018

Rating Assigned and Upgraded

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BBB+ / Stable (Upgraded)

**Refer annexure for details*

SMERA has upgraded the long term rating of **'SMERA BBB+' (read as SMERA triple B plus)** on the Rs.5.00 crore bank facilities and assigned the the long term rating of **'SMERA BBB+' (read as SMERA triple B plus)** on the Rs.5.00 crore bank facilities of The Kolhapur Steel Limited (TKSL). The outlook is **'Stable'**.

The Kolhapur Steel Limited (TSKL) established in 1965 was taken over by the Kirloskar group in 2007. TKSL is a 99.74 per cent subsidiary of Kirloskar Brothers Limited (KBL). It is engaged in the manufacturing of steel castings used in pumps, valves, turbines (steam and hydro) among others.

The upgrade in rating is driven by the extended support from Kirloskar Group which now holds 99.74 per cent (prev: 96 per cent) in TKSL, corporate guarantee given by Kirloskar Brothers Limited and significant improvement in business risk profile of TKSL on standalone basis. TKSL drives operational and financial support from KBL. Further, TKSL's total sales to Kirloskar group stood at ~78 per cent in 9MFY2018 as against ~65 per cent. The operating margins of TKSL have improved to 6.29 per cent for FY2018 (Prov.) from (-) 5.68 per cent in the previous year. However, the rating is constrained by the working capital intensive operations and intense competition in the industry.

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 99.74 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 78 percent (prev: 65 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. Currently, Kirloskar Brothers Limited holds 99.74 per cent in TKSL. 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 78 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.

Improvement in operating metrics and utilisation levels

The financial risk profile of TKSL has improved in FY2018 (Prov.) as compared to FY2017. TKSL has EBITDA profit of Rs.2.80 crore in FY2018 (Prov.) and PAT of Rs.0.54 crore on revenue of Rs.44.56 crore as compared to EBITDA loss of Rs.1.82 crore and net loss of Rs.4.22 crore on revenue of Rs.32.01 crore in FY2017. Further, the revenue has increased on increase in utilisation levels of TKSL. The capacity utilisation in FY2018 stood at 41.44 per cent as compared to 32.16 percent in the previous year and decrease in rejection levels.

SMERA believes the operating metrics of TKSL will remain average in near to medium term as TKSL is expected to make profits hereby.

Weaknesses

Moderate Scale of Operation

TKSL has operational and financial support from KBL. KBL has increased their shares in TKSL and now holds 99.74 per cent. The installed capacity for TKSL is modest and stood at 4500 MT per annum with current utilises levels of ~42 per cent. The total sales of TKSL to KBL's purchase are less than 5 per cent of KBL's purchases. The future growth of TKSL is dependent on the plans and willingness of KBL to infuse further equity when required. The financial risk profile of TKSL is weak marked by the net worth after the conversion of preference shares to equity of KBL which stood at (-) Rs.2.62 crore as on 31 March, 2018 (Prov.) as against (-) Rs.3.16 crore as on 31 March, 2017. 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 revenue of TKSL stood at Rs.44.56 crore for FY2018 (Prov.) with EBITDA margins of 6.29 per cent as against revenue of Rs.32.01 crore and EBITDA margin of (-) 5.68 per cent for previous year. The net cash accruals for FY2018 (Prov.) stood at Rs.1.85 crore as against (-) Rs.2.71 crore for FY2017.

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, operating metrics 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 ~99.74 per cent 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

	Unit	FY18 (Prov.)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	44.56	32.01	39.20
EBITDA	Rs. Cr.	2.80	(1.82)	(1.63)
PAT	Rs. Cr.	0.54	(4.22)	(5.25)
EBITDA Margin	(%)	6.29	(5.68)	(4.15)
PAT Margin	(%)	1.20	(13.18)	(13.40)
ROCE	(%)	36.14	(83.70)	(120.03)
Total Debt/Tangible Net Worth	Times	(4.02)	(1.82)	(1.24)
PBDIT/Interest	Times	2.59	(1.49)	(1.35)
Total Debt/PBDIT	Times	3.41	(3.22)	(17.87)
Gross Current Assets (Days)	Days	126	105	69

Any other information:

Not Applicable

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

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

None

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
27-Mar-2017	Cash Credit	Long Term	10.00	SMERA BBB- / Stable (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB+/ Stable (Upgraded)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB+/ Stable (Assigned)

Contacts:

Analytical	Rating Desk
Suman Chowdhury, President – Ratings Operations Tel: +91-22-6714 1107 Email: suman.chowdhury@smera.in Kashish Shah, Rating Analyst, Tel: +91-22-6714 1152 Email: kashish.shah@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 Email: varsha.bist@smera.in

ABOUT SMERA

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