KESORAM
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Ref.No.: KIL/SS/SE/2017-18 Dated : 26.09.2017

The Secretary
The Calcutta Stock Exchange Ltd.
7, Lyons Range
Kolkata – 700 001

The Secretary
BSE Limited
Deptt. of Corporate Services
(Listing Department)
Rotunda Building, P.J. Towers
Dalal Street, Fort
Mumbai 400 001

The Asst. Vice-President
National Stock Exchange of India Ltd.
"Exchange Plaza"
Bandra-Kurla Complex
Bandra (E)
Mumbai 400 051

Ref : Disclosure in Compliance with Regulation 30, Schedule III Part A of the Securities & Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir,

CARE Ratings Limited has assigned ratings on this Company's Long-term and Short-term, Bank facilities availed by us from the banking system.

A copy of the Press Release issued by the rating agency is enclosed.

Thanking you,

Yours faithfully,
For Kesoram Industries Limited

Gautam Ganguli
Company Secretary

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Registered & Corporate Office
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CIN - L17119WB1919PLC003429

BIRLA GROUP OF COMPANIES

Press Release
Kesoram industries Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	430	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Revised from CARE A; Negative(Single A; Outlook: Negative)**
Long/Short-term Bank Facilities	1,315.0	**CARE A-; Negative/CARE A2+ (Single A Minus; Outlook: Negative/A Two Plus)**	**Revised from CARE A; Negative/CARE A1 (Single A; Outlook: Negative/A One)**
Short-term Bank Facilities	585.0	**CARE A2+ (A Two Plus)**	**Revised from CARE A1 (A One)**
Total	**2,330.00 (Rupees Two Thousand Three Hundred and Thirty crore only)**		

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Kesoram Industries Limited takes into account deterioration in the performance of the tyre division which led to losses in Q1FY18 (refers to the period April 2017- June 2017). The ratings continue to take into account KIL's long established track record of promoters, diversified product portfolio and operational efficiency of the cement division. The ratings also factors in improvement in the performance of the cement division and stable outlook of the cement industry going forward.

The ratings are however, constrained by leveraged capital structure, risk of volatility in raw material prices of tyre division, high competition in the tyre industry and cyclicality of the cement industry. Going forward, ability of the company to increase the capacity utilisation of tyre division, improve its profitability margin and overall capital structure (through infusion of equity) would remain key rating sensitivities.

Outlook Negative

The outlook on the long term rating is negative on account of continuous losses in the tyre division leading to weakening of overall financial risk profile. The outlook may be revised to stable in the event of improvement in profitability of tyre division or substantial improvement in capital structure through equity infusion.

Detailed description of the key rating drivers

Key Rating Strengths

Long & established track record of the company

KIL, the flagship company of B.K. Birla group, was set up in the year 1919 and has been operating over the last nine decades. B.K.Birla group is a leading industrial group in the country with major interests in tea, cement, tyres, textiles, etc. Mr. B.K. Birla is the promoter & Chairman of KIL and his daughter Smt. Manjushree Khaitan is the vice-chairperson and executive director. As on March 31, 2017, the promoters' stake in KIL is around 49.38%.

As per the media reports Mr. B.K. Birla in the 90th annual general meeting of the company held in June 2009 stated that Mr. Kumar Mangalam Birla (grandson of B. K. Birla) is likely to take over the reins of the company.

Diversified product profile, well accepted brands and strong distribution network

KIL manufactures and sells tyres (under the brand name of Birla tyres) and cement (under the brand name Birla Shakti). In the tyre segment, KIL's aggregate installed capacity is around 21.65 lakh tyres per annum. Its product portfolio consists of mainly Truck/Bus Tyre, 2/3 wheelers tyres, Light commercial vehicle tyres. Replacement market accounts for around 65% of the total sales of tyre divison.

In the cement segment, KIL sells both PPC and OPC. The ratio of OPC and PPC is around 55:45. KIL sells cement under the brand name 'Birla Shakti' and has presence in Western and Southern regions of the country.

Operational efficiency of Cement Division by way of Limestone mines and captive power plant

KIL sources limestone from its two leasehold mines (one each at both the locations). The limestone reserves at both the mines extend beyond economic life of the respective plants. The said mines are located in proximity of the clinker plants, thereby enabling the company to optimize cost.

Cement production, being power intensive, KIL needs uninterrupted supply of power which is ensured by the CPPs installed at its plant locations (aggregate capacity 93MW), which meets the entire annual power requirement of the cement unit. The cheaper cost of power generated in CPPs vis-à-vis power from GRID reduces power cost leading to improvement in operational efficiency of the company. Efficiency of the cement units can also be demonstrated through the low power consumption per tonne (74.29 kwh/tonne).

Key rating weakness

Deterioration in financial risk profile due to poor performance of the tyre division

During Q1FY18, KIL reported PBILDT *(Operating Profit before Interest Depreciation and Taxes)* of 0.84 crore as against Rs.22.56 crore in Q1FY17. The decline in performance was mainly on account of deterioration in performance of the tyre division. Low PBILDT coupled with exceptional loss of Rs.23.97 crore (on account of Voluntary Retirement Scheme adopted by the company during the period) led to cash losses in Q1FY18. Tyre division reported operating loss of Rs.42 crore in Q1FY18 as against a PBILDT of Rs.6.5 crore in Q1FY17. Such a decline in the performance was due to decline in sales volume and increase in process of natural rubber during the period without a corresponding increase in realization on account of weaker demand. On the other hand, during the quarter, the performance of the cement division has improved as marked by a PBILDT of Rs.77 crore as against a PBILDT of Rs.48 crore in Q1FY17. The same was on account of improvement in the overall realisations. During FY18, the company does not have any term liability obligations.

In last 12 months ended August 2017, KIL's average utilisation of working capital facilities stood at 77.19%.

Capacity Expansion in Tyre Divison

The Company is setting up Passenger Car Radial Unit of 80 MT per day at Balasore unit at a cost of around Rs.800 crore. The company has already incurred around Rs.600 crore in the above project. The project is likely to commence operations in phases with first phase starting from Q1FY19. Ability of the company to complete the project in time and market its product would be crucial for future profitability of the tyre division.

Risk of volatility in raw material prices

KIL sources majority of natural rubber from the open market which has been quite volatile over the last three years. Consequently, the performance of KIL depends upon the ability to procure natural rubber at competitive prices. Further, there has been significant volatility in prices of other raw materials such as synthetic rubber, carbon black.

Cyclical nature of cement industry

Cement industry is highly cyclical in nature and depends largely on the economic growth of the country. There is a high degree of correlation between the GDP growth and the growth in cement consumption. Cement being a cyclical industry goes through phases of ups and downs, and accordingly impacts the unit realisations.

Analytical approach: Standalone.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies

Company's Background

Kesoram Industries Ltd (KIL), the flagship company of the B.K. Birla group, is a diversified conglomerate engaged in manufacturing of tyres & tubes and cement. The primary products are tyre (majorly into Truck & Bus Segment- T& B) and cement, which accounted for 41% and 59% respectively of gross turnover in FY17. KIL's cement manufacturing units have an aggregate capacity of 7.25 million tonnes per annum (MTPA) and are located in Karnataka & Andhra Pradesh. The tyre manufacturing facility of the company is located at Balasore, Orissa, having an installed capacity to produce 21.60 lakh tyres per annum.

KIL reported a loss of Rs.124.13 crore in FY17 on a total income of Rs.4,010.65 crore as against a loss of Rs.209.79 crore in FY16 on a total income of Rs.4,967.62 crore. Furthermore in Q1FY18, the entity reported a loss of Rs.122.59

crore (loss of Rs.0.17 crore in Q1FY17) on a total income of Rs.897.96 crore (Rs.957.35 crore in Q1FY17).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	4,205.36	3,836.03
PBILDT	-172.67	79.95
PAT	137.12	-124.13
Overall gearing (times)	17.56	18.31
Interest coverage (times)	-0.25	0.30

A: Audited

Status of non-cooperation with other CRA: Not applicable

Any other information: Not applicable

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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