

Ref.No.: KIL/SS/SE/2016-17

9th June, 2016

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

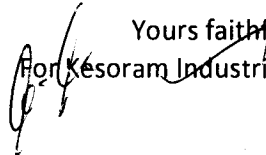
The secretary
BSE Limited
Deptt. of Corporate Services
(Listing Department)
Rotunda Building, P.J. Towers
Dalal Street, Fort
Mumbai 400 001

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

Dear Sir,

Find enclosed herewith a copy of Credit Rating for Bank Facilities/Instruments dated June 08, 2016 to the company issued by Credit Analysis & Research Ltd. for respective facilities in compliance of Regulation 30(4) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking you,

Yours faithfully,

For Kesoram Industries Limited

GAUTAM GANGULI
COMPANY SECRETARY

Encl: as stated above.

No.CARE/KRO/RR/2016-17/1071

Shri T.K.Das
Chief Financial Officer
Kesoram Industries Limited
Birla Building (8th Floor)
9/1, R.N.Mukherjee Road
Kolkata – 700 001

June 08, 2016

Confidential

Dear Sir,

Credit rating for Bank Facilities/Instruments

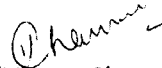
Please refer to our letters dated May 17, 2016, May 30, 2016, June 02, 2016 and June 03, 2016 and on the above subject.

2. As per the discussion, the revised rating rationale & brief rationale for the captioned subject is enclosed as **Annexure – I & Annexure – II** respectively to this letter.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,


(Vineet Chamarla)
Manager

Encl. – As above

CREDIT ANALYSIS & RESEARCH LTD.

CORPORATE OFFICE: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (E), Mumbai 400 022.
Tel.: +91-22-6754 3456; Fax: +91-22-6754 3457
Email: care@careratings.com | www.careratings.com

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata 700 071
Tel: +91-33-4018 1600 / 02
Fax: +91-33-4018 1603

Annexure I
Rating Rationale
Kesoram Industries Limited

Ratings			
Facilities	Amount (Rs. Crore)	Ratings¹	Remarks
Long/Short-term Bank Facilities	1,300.0	CARE A/CARE A1 (Single A/A One)	Revised from CARE A-/CARE A2+ (Single A Minus/A Two Plus). Removed from credit watch
Short-term Bank Facilities	600.0	CARE A1 (A One)	Revised from CARE A2 (A Two Plus); Removed from credit watch
Total	1,900.0 (Rupees One Thousand Nine Hundred crore only)		
Optionally Convertible Redeemable Preference Shares	90.0 (Rupees Ninety crore only)	CARE BBB+ (RPS) [(Triple B Plus) (Redeemable Preference Shares)]	Reaffirmed and removed from credit watch
Commercial Paper Issue *	400.0 (Rupees Four Hundred crore only)	CARE A1 (A One)	Assigned

*carved out of sanctioned working capital limits of the company

Rating Rationale

The revision in ratings and removal of credit watch on the ratings assigned to the bank facilities of Kesoram Industries Ltd (KIL) is on account of improvement in the financial risk profile of the company following successful completion of transfer of Cavendish Industries Ltd (CIL-99% subsidiary of KIL having a tyre unit at Laksar) to JK Tyre industries Limited for a consideration of Rs.2,145 crore, the proceeds of which have been utilized for reduction of high debt levels. The company has also undertaken various measures by the way of divestment of various non-core assets which has led to significant improvement in the liquidity profile of the company.

The ratings continue to derive comfort from the long established track record of the promoters, satisfactory performance of the cement division arising from the operation efficiency through backward integration in the form of limestone and power.

However, the ratings are constrained by high gearing (though improved), losses in the tyre division, risk of volatility in raw material prices and competition from the established players in the market for the tyre division.

Ability to improve the profitability of the tyre division and improvement in the capital structure

¹ Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

June 08, 2016



CREDIT ANALYSIS & RESEARCH LTD.

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.), 10A, Shakespeare Sarani, Kolkata 700 071
Tel: +91 33-4018 1600 / 02 | Fax: +91-33-4018 1603 | Email: care@careratings.com | www.careratings.com

CIN-L67190MH1993PLC071691

would remain the key rating sensitivity.

Background

Kesoram Industries Ltd (KIL), the flagship company of the B.K. Birla group, is engaged in manufacturing of tyres & tubes, cement. KIL's six cement manufacturing units – four at Sedam in Karnataka & two at Basantnagar in Andhra Pradesh, have an aggregate capacity of 7.25 mn tonnes per annum while the company has a tyre manufacturing unit, at Balasore, Orissa, with a capacity to produce 21.6 lakh tyres per annum. The company sells cement under the brand name of *Birla Shakti Cement* and tyre under the brand name of *Birla Tyres*.

Credit Risk Assessment

Completion of the sale of the tyre division & sale of non-core assets leading to significant reduction in debt and improvement in liquidity of the company

During April 2016, the company successfully completed the transfer of Cavendish Industries Ltd (CIL-99% subsidiary of KIL having a tyre unit at Laksar to JK Tyre Industries Limited for a consideration of Rs.2,145 crore.

Apart from the above, during March 2016, the company divested its non-core assets (investment in listed equity shares, sale of Kesoram spun pipe & foundries and Hindusthan Chemical division) which led to infusion of around Rs.830 crore. Further the company also raised Rs.180 crore through issue of equity shares to one of the promoter group entity (Rs.90 crore) and issue of optionally convertible redeemable preference shares of Rs.90 crore.

The above funds were utilized for repayment of high level of debt in the company. Total Debt (including security deposits from selling agents) level reduced to around Rs.2900 crore as on April 2016 as against Rs.5350 crore as on March 31, 2016. Further Axis bank has refinanced the balance term loan for a longer tenure including moratorium period. Inflow of funds and refinancing of term loan has provided the liquidity cushion in the company.

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 satisfactorily over the last nine decades. B. K. Birla group is a leading industrial group with major interests in tea, cement, tyres, textiles, etc. Shri B. K. Birla, the promoter & Chairman of KIL, is an eminent industrialist who has been in the Board of KIL since 1940. Smt. Manjushree Khaitan (daughter of B.K. Birla) is the vice-chairperson and executive director of KIL since Feb, 2013.

As per the media reports Shri. B.K. Birla in the 90th annual general meeting of the company



stated that Shri Kumar Mangalam Birla (grandson of B. K. Birla) is likely to take over the reins of the company.

The promoters have infused Rs.90 crore as equity during March 2016.

Diversified product profile and well accepted brands and strong distribution network

KIL has a diversified product profile, and is engaged in manufacturing automobile tyres and tubes, cement,. The company generally produces three grades of cement, viz., 53/43 grades of OPC and PPC and sells under the brand name 'Birla Shakti', which is well accepted brand in the market.

Operational efficiency arising from backward integration (limestone and power) for cement division

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 pertaining to its mining activities. Availability of high quality of limestone enables higher blending ratio thereby resulting in higher cement production.

Cement production, being power intensive, KIL needs uninterrupted supply of power which is ensured by the CPPs installed at its plant locations (aggregate capacity 90MW), 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. However, KIL has to depend on third parties for about 20% of its coal requirement and thus is exposed to the risk of coal price volatility.

Financial profile marked by improvement in liquidity, operating losses high gearing, though improving

As per the audited working results of FY16, the company incurred an operating loss of Rs.212.58 crore [as against operating profit (including the rayon business) of Rs.167.37 crore in FY15] mainly on account of increase in losses in the tyre division. Tyre division of the company has been incurring losses on account of lower capacity utilization and higher fixed cost. Losses increased in FY16.

The company had transferred its Laksar Tyre Plant as a going concern to Cavendish Industries Limited (CIL) as on March 31, 2015. The company executed a binding term sheet with J K Tyre on September 12, 2015 for the sale of unit subject to the regulatory approvals. Pending the regulatory approvals for the sale of the unit to JK Tyre, the company operated the plant on a

job work basis whereby the KIL would provide the raw material to CIL which in turn would produce the tyre and sell it back to KIL at a cost plus margin. As a part of this arrangement, CIL cost structure took into account depreciation of about Rs.150 crore of the Laksar plant for FY16, thereby forming the part of operating cost for KIL which otherwise would not have been part. The said arrangement resulted in higher loss for the tyre division. Further, the division incurred a loss on account of revaluation of inventory as per AS-2 as cost of inventory increased due to inclusion of depreciation and Net Realisable Value being lower than cost.

Despite losses at the PBILDT level in FY16, PAT level was higher on account of extra ordinary income resulting from the sale of non- core assets. The company achieved a PAT after discontinuing operations of Rs.137.12 crore in FY16 as against loss of Rs.366.68 crore in FY15.

CARE believes that with the hiving of the Laskar tyre unit & stable profit from the cement division, the profitability of the KIL is expected to improve going forward.

Capital structure of the company though improved (on account of reduction in debt out of the proceeds of the aforesaid mentioned transactions) is still on the higher side. However the liquidity position of the company has improved significantly.

Risk of volatility in raw material prices & competition from established players in the market for the tyre division

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 prices at competitive prices. Further, there has been significant volatility in prices of other raw materials such as synthetic rubber, carbon black.

Tyre market is extremely competitive; KIL faces tough competition from established players like MRF Limited, Apollo Tyre Ltd, J K Tyres & Industries, CEAT Limited and Goodyear India. Competitions limits KIL's opportunity to expand the market share and determining the price of the product.

Further, most of KIL's T&B tyre sale comprise the bias tyres. At present, only 19% of the Indian commercial vehicle tyre market constitutes market for radial tyre. Though transitions from bias to radial has been slow in India due to cost consideration and India's poor road infrastructure, a more rapid shift might hurt KIL operation as radial tyre sale of KIL constitutes around 15% of its total tyre sale in FY16.

Prospects

Going forward the prospects of the company would depend on its ability to improve the performance of the tyre division and improve its capital structure.

Financial Performance (Rs.Cr)

For the year ended as on Mar. 31	2013	2014	2015
	Audited		
Net Sales	5,685.59	5,062.96	4,860.67
Total Operating Income	5,814.64	5,168.33	4,921.24
PBILDT*	419.28	373.51	167.37
Interest	514.36	572.83	680.58
Depreciation	305.93	318.10	276.90
PBT	-377.19	-480.30	-366.68
PAT	-329.23	-515.55	-366.68
Gross Cash Accruals (GCA)	-80.51	-197.45	-89.78
Financial Position			
Equity share capital	45.74	109.77	109.77
Net Worth	577.73	468.43	84.97
Total Capital Employed	5,656.29	5,376.53	5,277.36
Key Ratios			
Growth			
Growth in Total Income (%)	-2.42	-10.84	2.67
Growth in PAT (after Deferred Tax) (%)	-13.30	56.59	-28.88
Profitability			
PBILDT / Total OI	7.21	7.23	3.40
PAT / Total Income	-5.64	-9.90	-6.86
ROCE	2.41	1.68	5.89
Solvency			
Long Term Debt equity ratio	5.98	7.35	47.97
Overall gearing ratio	8.79	10.48	61.11
Interest coverage (times)	0.82	0.65	0.25
Total debt/GCA	NM	NM	NM
Liquidity (times)			
Current ratio	0.67	0.69	1.49
Quick Ratio	0.39	0.41	1.22
Turnover			
Average Collection Period (days)	45	58	57
Average Inventory (days)	74	79	78
Average Creditors (days)	38	46	47
Operating cycle (days)	80	91	89

NM – Not Meaningful; *including rayon business

Details of Facilities Rated

1. Short-term facilities

Non Fund Based Limits

(Rs.crore)

Sr. No.	Name of Bank	Non Fund Based Limits		
		LC/BG*	Others	Tenure as per Sanction
1.	State Bank of India	350.00	-	Upto 1 Year

Sr. No.	Name of Bank	Non Fund Based Limits		
		LC/BG*	Others	Tenure as per Sanction
2.	Punjab National Bank	40.00	-	
3.	HDFC Bank	15.00	-	
4.	SCB	30.00	-	
5.	Axis Bank	5.00	-	
6.	ICICI Bank	101.00	-	
7.	Indusind Bank	5.00	-	
8.	Yes Bank	44.00	-	
9.	Kotak Mahindra Bank	10.00	-	
	TOTAL	600.00	-	

*LC – Letter of Credit; BG – Bank Guarantee

2. Long-term/ Short-term facilities

Fund Based

(Rs.crore)

Sr. No.	Name of Bank	Fund Based Limits		
		CC/EPC*	Others	Total Fund Based Limit
1.	SBI	575.00	-	575.00
2.	HDFC Bank	130.00	-	130.00
3.	Kotak Mahindra Bank	60.00	-	60.00
4.	State Bank of Hyderabad	30.00	-	30.00
5.	DBS	15.00	-	15.00
6.	SCB	50.00	-	50.00
7.	Bank of Baroda	50.00	-	50.00
8.	PNB	80.00	-	80.00
9.	Axis Bank	25.00	-	25.00
10.	ICICI Bank	50.00	-	50.00
11.	Indusind Bank	40.00	-	40.00
12.	South Indian Bank	50.00	-	50.00
13.	Yes Bank	15.00	-	15.00
14.	Union Bank	100.00	-	100.00
15.	Karur Vyasya Bank	15.00	-	15.00
16.	Proposed Limit	15.00	-	15.00
	TOTAL	1,300.00	-	1,300.00

*CC- Cash Credit; EPC – Export Packing Credit

Total Facilities Rated- Rs.1,900.00 crore.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure II
Brief Rationale

CARE removes the credit watch and revises ratings assigned to the Bank Facilities; reaffirms the rating assigned to Long Term Instrument and assigns CARE A1 to Short Term Instrument (Commercial Paper) of Kesoram Industries Limited

Ratings			
Facilities	Amount (Rs. Crore)	Ratings¹	Remarks
Long/Short-term Bank Facilities	1,300.0	CARE A/CARE A1 (Single A/A One)	Revised from CARE A-/CARE A2+ (Single A Minus/A Two Plus). Removed from credit watch
Short-term Bank Facilities	600.0	CARE A1 (A One)	Revised from CARE A2 (A Two Plus). Removed from credit watch
Total	1,900.0 (Rupees One Thousand Nine Hundred crore only)		
Optionally Convertible Redeemable Preference Shares	90.0 (Rupees Ninety crore only)	CARE BBB+ (RPS) [(Triple B Plus) (Redeemable Preference Shares)]	Reaffirmed and removed from credit watch
Commercial Paper issue*	400.0 (Rupees Four Hundred crore only)	CARE A1 (A One)	Assigned

*carved out of sanctioned working capital limits of the company

Rating Rationale

The revision in ratings and removal of credit watch on the ratings assigned to the bank facilities of Kesoram Industries Ltd (KIL) is on account of improvement in the financial risk profile of the company following successful completion of transfer of Cavendish Industries Ltd (CIL-99% subsidiary of KIL having a tyre unit at Laksar) to JK Tyre Industries Limited for a consideration of Rs.2,145 crore, the proceeds of which have been utilized for reduction of high debt levels. The company has also undertaken various measures by the way of divestment of various non core assets which has led to significant improvement in the liquidity profile of the company.

The ratings continue to derive comfort from the long established track record of the promoters, satisfactory performance of the cement division arising from the operation efficiency through backward integration in the form of limestone and power.

However, the ratings are constrained by high gearing (though improved), losses in the tyre division, risk of volatility in raw material prices and competition from the established players in the market for the tyre division.

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

R

Ability to improve the profitability of the tyre division and improvement in the capital structure would remain the key rating sensitivity.

Background

Kesoram Industries Ltd (KIL), the flagship company of the B.K. Birla group, is engaged in manufacturing of tyres & tubes, cement. KIL's six cement manufacturing units – four at Sedam in Karnataka & two at Basantnagar in Andhra Pradesh, have an aggregate capacity of 7.25 mn tonnes per annum while the company has a tyre manufacturing unit, at Balasore, Orissa, with a capacity to produce 21.6 lakh tyres per annum. The company sells cement under the brand name of *Birla Shakti Cement* and tyre under the brand name of *Birla Tyres*.

During April 2016, the company successfully completed the transfer of Cavendish Industries Ltd (CIL-99% subsidiary of KIL having a tyre unit at Laksar to JK Tyre Industries Limited for a consideration of Rs.2,145 crore and undertook various measures (during March 2016) in the form of divestment of various non-core assets. The aforesaid has resulted in significant reduction in debt and improvement in liquidity position of the company.

As per the audited working results of FY16, the company reported an operating loss of Rs. 212.58 crore and net profit after discontinuing operations of Rs.137.12 crore on a total income of Rs.5,319.83 crore. Losses were on account of losses incurred in the tyre division. Despite operating loss, the company achieved a PAT on account of extraordinary income arising from the sale/ transfer of non- core assets.

Analyst Contact

Name: Vineet Chamaria

Tel # 033-4018 1609

Mobile # 90517 30850

Email: vineet.chamaria@careratings.com

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 core@careratings.com for any clarifications.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.