

## Kirloskar Electric Company Ltd — 23 Jul 2025 Credit Rating Summary

This summary is prepared from the perspective of an equity analyst evaluating **Kirloskar Electric Co. Ltd. (KECL)** following the rating assignment by CRISIL on July 23, 2025.

### Credit Rating Summary: Kirloskar Electric Co. Ltd.

Section	Details
Agency	CRISIL Ratings
Rating Change	Assigned: <b>B+ / Stable / A4</b> (Fresh Rating)
Outlook	<b>Current: Stable</b> (Reflects expected benefit from established market position)
Key Drivers of Change	<ol style="list-style-type: none"><li><b>Negative Net Worth:</b> Persistent losses (FY22–FY24) have eroded equity, leading to negative gearing and weak debt protection.</li><li><b>Asset Monetization:</b> Near-term stability depends on ₹Cr inflows from property sales to repair the balance sheet.</li><li><b>Input Volatility:</b> Margins are highly sensitive to raw material prices (Iron, Steel, Copper), though escalation clauses provide some protection.</li><li><b>Operational Scale:</b> Rating assumes a "ramp-up" in operations is essential to turn accruals positive.</li></ol>
Rated Instruments	<ol style="list-style-type: none"><li><b>Letter of Credit:</b> ₹50.20 Cr</li></ol>
Key Observations	<ul style="list-style-type: none"><li><b>Strength:</b> 75+ years of brand legacy and promoter experience in the electrical equipment industry.</li><li><b>Strength:</b> Highly diversified end-user base (Steel, Cement, Renewables, Sugar) reduces sector-specific risks.</li><li><b>Weakness:</b> Liquidity is <b>Stretched</b>; bank limit utilization averaged 95.84% over the last 12 months.</li><li><b>Weakness:</b> Financial risk profile remains "constrained" due to historical underperformance.</li><li><b>Risk:</b> Downward pressure if operating margins drop below 2% or if debt-funded Capex is undertaken.</li></ul>
Investor Impact	<ul style="list-style-type: none"><li><b>Dilution Risk:</b> CRISIL identifies "Equity Infusion" as a key upward rating trigger, suggesting potential future share issuance.</li><li><b>Margin Watch:</b> Low threshold for error; a dip below 2% EBITDA margin triggers a downgrade.</li><li><b>Deleveraging:</b> Equity value is currently tied to non-core asset sales rather than operational cash flow.</li><li><b>Growth:</b> Stretched working capital and high bank limit usage may bottleneck the ability to take on large new orders.</li></ul>
Agency / Cross Analysis	<ul style="list-style-type: none"><li><b>New Agency:</b> CRISIL assigned a formal rating after the company was previously classified as "<b>Non-Cooperative</b>" by CARE Ratings.</li><li><b>Conclusion: Improvement.</b> The transition from "Non-Cooperative" status to a regular rating indicates improved management transparency and data sharing, providing a clearer (though still high-risk) roadmap for investors.</li></ul>
Final Inference	<b>High-Risk Recovery Play.</b> While the brand and order book potential are strong, the company is fundamentally a "balance sheet repair" story. Equity upside is capped by the need for deleveraging and potential dilution.

**Analyst Note:** The company is currently operating with negative equity. For equity investors, the primary catalyst to watch is the **completion of property sales** and **improvement in interest coverage**, which are necessary before any sustainable re-rating of the stock can occur.