

KPL Exports Limited

December 29, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Short Term Bank Facilities – (i)	8.00	CARE A3 (A Three)	Reaffirmed
Short Term Bank Facilities – (ii)	381.00	CARE A3 (A Three)	Revised from CARE A3 (CE) [A Three (Credit Enhancement)]
Total Bank Facilities	389.00 (Rs. Three Hundred Eighty-Nine Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of KPL Exports Ltd (KEL) at S:No (ii) follows the weakened credit profile of the guarantor i.e. Kothari Products Ltd (KPL) over the past few years and derives no additional comfort from corporate guarantee extended by KPL for the debt availed by KEL and consequently the rating of KEL is based on the independent assessment of the company. However, notwithstanding the de-linking of KEL's rating with its Parent, the financial and management linkages between the two entities continue to remain.

The reaffirmation of the ratings assigned to the bank facilities of KEL at S:No (i) continues to derive strength from the extensive experience of promoters in the trading business, the company's long track of operations with considerable albeit reducing over the years and diversified scale. The ratings also favourably factor in their long-standing relationship with buyers and suppliers, limited inventory risk and strong liquidity. However, the ratings continue to remain constrained due to modest financial risk profile marked by high overall gearing, high customer concentration risk, working capital intensive nature of operations and exchange rate fluctuation risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in margins and ROCE above 12% on sustained basis.
- Improvement in capital structure with overall gearing below 3.00 times on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Elongation in operating cycle and resultant weakening of liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters: Incorporated in 2008, KEL is a wholly owned subsidiary of Kothari Products Limited (KPL) and is engaged in the same line of business as KPL. The extensive experience of the promoters and KPL's longstanding relations with customers and suppliers has enabled KEL to scale up operations in a short period. Also, KPL has supported KEL with the infusion of funds in form of unsecured loans. Also, KPL has supported KEL with the infusion of funds in form of unsecured loans. As on September 30, 2021, unsecured loans stood at Rs.116.93 crore.

Diversified product profile and limited inventory risk: KEL is engaged in trading of multiple commodities similar to parent entity KPL. The company undertakes international trade of various products and commodities which includes agro-based commodities, electronics, minerals, metals, edible oil, coal, tiles, paper products, scrap, and PVC. Most of the trading activities undertaken by KEL are characterized by back-to-back sales arrangements, therefore, KEL does not keep any inventory as reflected by nil inventory days during FY21 (refers to the period from April 01 to March 31) (PY: 0 days).

Sizeable scale of operations albeit low profitability: The total operating income of the company grew by 13.44% to Rs.1173.82 crore in FY21 (PY: Rs.1034.78 crore) driven by 15.33% rise in export sales. However, The PBILDT margin of the company declined to 0.06% (PY: 1.58%) due to loss on foreign currency transaction reported by the company in FY21. Further, KEL reported net loss of Rs.12.19 crore in FY21 (PY: net profit of Rs.5.54 crore) on account of decline in the PBILDT margin and increase in interest expense during FY21. For H1FY22 (refers to the period from April 01 to September 30), the company has reported total operating income of Rs.753.56 crore. Further, the company reported PBILDT margin and PAT margin of 1.51% and 1.00% respectively during H1FY22.

Key Rating Weaknesses

Modest financial risk profile: The overall gearing of the company improved marginally from 3.90x as on March 31, 2020 to 3.79x as on March 31, 2021. The debt profile of the company as on March 31, 2021 comprises of unsecured loans from

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

directors and related parties to the tune of Rs.139.41 crore (19.42% of total debt), debentures to the tune of Rs.369.57 crore (51.47% of total debt), working capital borrowings to the tune of Rs.51.50 crore (7.17% of total debt), and L.C. Acceptances (net of margin money) to the tune of Rs.157.50 crore (21.94% of total debt). Loans from directors are interest free loans whereas the loans from related parties carry an interest rate of 7%-9% per annum. These loans have no defined repayment structure. Debt coverage indicators deteriorated substantially as reflected by PBILDT interest coverage of 0.05x (PY: 2.05x) in FY21 on account of decline in the PBILDT margin and increase in interest expense.

Large working capital requirements: KEL's operating cycle improved marginally to 157 days (PY: 175 days) in FY21 due to improvement in the collection period. The average collection period of KEL improved from 284 days in FY20 to 249 days in FY21. Due to trading nature of the business, average inventory days stood nil in FY21 (PY: Nil) as KEL enters into agreement with supplier only after getting order from buyer. Average creditors days for FY21 stood at 91 days (PY: 107 days).

Customer concentration risk: The customer concentration risk remains high for the company as reflected by a large proportion of revenue coming from top 4-5 clients. However, the long-standing association with its customers mitigates this risk to an extent.

Foreign exchange fluctuation risk: Being in the business of international trade involving various foreign currencies, KEL remains exposed to risk related to fluctuation in foreign currency. However, the forex risk is in-built in the company's business model and the margins are decided after factoring in the said risk. Moreover, the company has policy of hedging about 60-70% of its forex exposure by using forward contracts. KEL reported forex loss of Rs.15.82 crore in FY21 (PY: Gain of Rs.26.85 crore).

Prospects: Covid-19 pandemic has resulted into acute market volatility/disruptions across the globe. However, as per "Atmanirbhar Bharat Abhiyan" announced by the government, the emphasis is more to increase export and hence both headwinds and tailwinds are operating around the globe which will impact the future course of the trade. The government initiative to increase exports is expected to aid the rising share of domestic trading of products in KEL's overall sales. However, ability to manage forex risk and effective working capital management would remain critical for KEL's prospects.

Liquidity: Adequate – The liquidity profile of the company is adequate as reflected by projected gross cash accruals to the tune of Rs.5.73 crore in FY22 and has no fixed debt repayment in absence of any term loan. The current ratio of the company stood comfortable at 2.02x (PY: 1.92x) as on March 31, 2021. The company had free cash and bank balance to the tune of Rs.120.97 crore as on September 30, 2021. KEL is not projected to incur any capex in the near future. Further, the company reported healthy cash flow from operations to the tune of Rs.87.43 crore during FY21.

Analytical approach: Standalone after factoring linkages with the Parent – Kothari Products Ltd

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

About the Company

Incorporated in April 2008, KEL is a wholly owned subsidiary of KPL. KEL is a part of Kothari group which is promoted by Mr. Deepak Kothari. The company is engaged in the same business as KPL i.e. international trading of electronics, coal, edible oil, construction material, machines and spares etc. The entire management team and client base are common for both the companies.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (P)
Total operating income	1,034.78	1,173.82	753.56
PBILDT	16.35	0.69	11.76
PAT	5.54	-12.19	5.05
Overall gearing (times)	3.90	3.79	3.22
Interest coverage (times)	2.05	0.05	2.41

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-EPC/PSC		-	-	-	11.00	CARE A3
Non-fund-based - ST-BG/LC		-	-	-	370.00	CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	8.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - ST-EPC/PSC	ST	11.00	CARE A3	-	1)CARE A3 (CE) (07-Oct-20)	1)CARE A3 (CE) (07-Oct-19) 2)CARE A3 (SO) (07-Jun-19)	1)CARE A3 (SO) (04-Oct-18) 2)CARE A3 (SO) (24-Aug-18) 3)CARE A2 (SO) (01-Jun-18)
2	Non-fund-based - ST-BG/LC	ST	370.00	CARE A3	-	1)CARE A3 (CE) (07-Oct-20)	1)CARE A3 (CE) (07-Oct-19) 2)CARE A3 (SO) (07-Jun-19)	1)CARE A3 (SO) (04-Oct-18) 2)CARE A3 (SO) (24-Aug-18) 3)CARE A2 (SO) (01-Jun-18)
3	Fund-based - ST-EPC/PSC	ST	-	-	-	-	1)Withdrawn (07-Oct-19) 2)Provisional CARE A3 (SO) (07-Jun-19)	1)Provisional CARE A3 (SO) (04-Oct-18) 2)CARE A3 (SO) (24-Aug-18) 3)Provisional CARE A2 (SO) (01-Jun-18)
4	Non-fund-based - ST-BG/LC	ST	-	-	-	1)Withdrawn (14-Aug-20)	1)Provisional CARE A3 (CE) (07-Oct-19) 2)Provisional CARE A3 (SO) (07-Jun-19)	1)Provisional CARE A3 (SO) (04-Oct-18) 2)CARE A3 (SO)

								(24-Aug-18) 3)Provisional CARE A2 (SO) (01-Jun-18)
5	Un Supported Rating-Un Supported Rating (Short Term)	-	-	-	-	-	1)CARE A3 (07-Oct-19)	-
6	Non-fund-based - ST-Forward Contract	ST	8.00	CARE A3	-	1)CARE A3 (07-Oct-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - ST-EPC/PSC	Simple
2	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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