October 12, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF KOTHARI PRODUCTS LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	4.50	**CARE A- [Single A Minus]**	**Reaffirmed**
Short-term Bank Facilities	1,495.50	**CARE A2+ [A Two Plus]**	**Reaffirmed**
Total Bank Facilities	**1,500.00 (Rupees One Thousand and Five Hundred crore only)**		

Rating Rationale

The ratings of bank facilities of Kothari Products Limited (KPL) continue to derive strength from the extensive experience of promoters in the trading business, the company's long track record and large scale of operations, its diversified range of traded products and limited inventory risk due to back to back trading arrangements. Furthermore, the ratings continue to factor in the KPL's moderate financial risk profile characterized by its moderate gearing as well as debt coverage indicators and its healthy liquidity position. However, the ratings are constrained by the company's high exposure to the group entities in the form of loans & advances, investments and corporate guarantees, working capital intensive operations and susceptibility of its profitability margins to foreign exchange rates. The ratings also factor in the company's high customer concentration, though the same is mitigated to some extent by its established relationship with the customers.

Going forward, the ability of KPL to improve its profitability margins while effectively managing the fluctuation in commodity prices and exchange rates and maintain a moderate capital structure would be the key rating sensitivity. Further, the impact of the company's exposure towards its group entities on KPL's credit profile would also be crucial.

KPL and its major wholly owned subsidiaries are engaged in similar business of international trading; hence CARE has considered a consolidated approach in its credit risk assessment.

Background

KPL was set up as a partnership firm by Mr. M.M. Kothari and family in 1973. The company is primarily engaged in international trading of various products and commodities which include coal, agro based commodities, metals, minerals, edible oil, scrap, polyvinyl chloride (PVC) etc. The company through its subsidiaries and other promoter group entities is also engaged in real estate development and leasing activities. Apart from this, the company also has substantial equity investments and loans and advances extended to various group entities. KPL Exports Private Limited, one of the KPL's wholly owned subsidiary is also engaged in international trading and is rated 'CARE A2+ (SO)' (based on corporate guarantee of KPL).

On a consolidated basis, during FY16 (refers to the period April 01 to March 31), KPL reported a PBILDT and PAT of Rs.191.19 crore and Rs.78.24 crore, respectively, on a total operating income of Rs.6870.40 crore as against a PBILDT and PAT of Rs.162.43 crore and Rs.74.35 crore, respectively, on a total operating income of Rs.6640.40 crore reported in FY15.

On a standalone basis, during Q1FY17 (refers to the period April 01 to June 30), KPL reported a PBILDT and PAT of Rs.19.04 crore and Rs.16.03 crore respectively on a total operating income of Rs.1152.83 crore as against a PBILDT and PAT of Rs.27.84 crore and Rs.18.38 crore respectively on a total operating income of Rs.1148.82 crore during the same period last year.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*



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

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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.

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