KPL Exports Limited

October 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Short Term Bank Facilities	384.92	**CARE A3 (CE)** **[A Three (Credit Enhancement)]**	**Reaffirmed**
Short Term Bank Facilities (Proposed)	65.08 (reduced from 115.08)	**Provisional CARE A3 (CE)** **[A Three (Credit Enhancement)]**	**Reaffirmed**
Total	**450.00** **(Rupees Four hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

@Backed by unconditional and irrevocable corporate guarantee provided by Kothari Products Limited (KPL)

Unsupported Rating [2]	**CARE A3 (A Three)**

Detailed Rationale& Key Rating Drivers for CE rating

The above ratings are based on credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by KPL for the bank facilities of KPL Exports Limited (KEL).

The credit profile of KPL continues to derive strength from the extensive experience of promoters in the trading business, the company's long track record and large scale of operations, diversified product range, adequate liquidity position and limited inventory risk due to back to back trading arrangements. The ratings are however constrained due to deterioration in the company's operational performance during FY19 (refers to the period April 1 to March 31) and Q1FY20 (refers to period: April 01 to June 30) marked by decline in total operating income albeit improvement in margins. The ratings also take into consideration the company's high albeit decreasing exposure to the group entities in the form of loans & advances, investments and corporate guarantees, working capital intensive operations and susceptibility of profit margins to fluctuations in foreign exchange rates and high customer concentration risk. The ratings take cognizance of the fact that on a standalone level, the company has fully repaid its bank limits and working capital is being funded by unsecured loans from promoters and related parties.

Going forward the ability of KPL to report growth in total income, improve its profitability margins and effectively manage its working capital requirements 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.

Detailed Rationale& Key Rating Drivers for unsupported rating

The ratings assigned to the bank facilities of KPL Exports Limited derive strength from experienced promoters and their longstanding relationship with buyers and suppliers, steady operating income albeit decreasing profitability, diversified product profile with limited inventory risk and adequate liquidity. However, the ratings remained constraint due to weak financial risk profile marked by high overall gearing, high customer concentration risk, working capital intensive nature of operations and susceptibility of profit margins to fluctuations in foreign exchange rates.

Going forward, the ability of KEL to improve its profitability margins, reduce gearing and effectively manage its working capital requirements would be the key rating sensitivity.

Detailed description of key rating drivers (CE Rating)

Key Rating Strengths

Experienced promoters and KPL's long track record of operations: Incorporated in 1973, KPL is the flagship company of Mr. Deepak Kothari controlled Kothari group. Mr. Deepak Kothari has over four decades of experience in handling several businesses. The company's long track record coupled with extensive experience of the promoters has enabled it to develop established relationships with customers and suppliers.

Diversified product profile and limited inventory risk: KPL undertakes international trade of various products and commodities such as metals, PVC, agro commodities etc. Most of the trading activities undertaken by KPL are characterized by back to back sales arrangements; therefore the inventory holding period is very less as reflected by inventory days of 12 days as on March 31, 2019. (PY: 11 days).

Moderate financial risk profile: KPL's overall gearing remained moderate at 1.41x on March 31, 2019 (PY: 1.44x). Interest coverage continues to remain comfortable at 3.23x in FY19 (PY: 2.45x). Total debt to GCA improved to 13.24x on during FY19 (PY: 26.11x), owing to higher GCA due to improvement in margins. On a standalone basis, KPL has fully repaid its limits from consortium of banks.

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

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

Key Rating Weaknesses

Decline in operating income albeit improvement in margins: The consolidated total operating income of the company declined to Rs 5765.66 crore in FY19 (PY: Rs 6371.30). However, the PBILDT margins improved from 1.73 % in FY18 to 3.29% in FY19 on account of decrease in cost of traded goods and higher margins from subsidiary company. Consequently, PAT margins also improved despite higher interest expenses to 1.99% in FY19 (PY: 0.87%). During Q1FY20, KPL reported total operating income, PBILDT and PAT of Rs 1111.27 cr, Rs 12.01 cr and Rs 0.22 cr respectively (PY: Rs 1337.75 cr, Rs 23.94 cr and Rs 5.20 cr respectively).

Working capital intensive nature of operations: Due to change in the business model, KPL had to fund the operating cycle through cash and cash equivalents and unsecured loans from promoters and related parties. Also, with the closing of business on LCs, the creditor days has reduced to 95 days in FY19 (PY: 131 days). The same has resulted in increase in working capital cycle from negative 19 days in FY18 to 50 days in FY19.

Customer concentration risk: The customer concentration risk remains high for the company as reflected by a large proportion of revenue coming from top 5-6 clients. However, the long standing association with its customers mitigates this risk to an extent.

High exposure to group companies: KPL has extended corporate guarantees to its various group entities. In addition to corporate guarantees, KPL also had an exposure towards its various group entities in the form of advances and investments. Going forward, any significant increase in group exposure may adversely impact the credit profile of the company would remain key credit sensitivity.

Foreign exchange fluctuation risk: Being in the business of international trade involving various foreign currencies, KPL remains exposed to risk related to fluctuation in foreign currency. However, the forex risk is in-build 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.

Adequate Liquidity: Current ratio improved and stood comfortable at 1.64x as on March 31, 2019 due to decrease in trade payables. Free cash and cash equivalents as on March 31, 2019 stood healthy at Rs 42.84 cr (PY: Rs 16.23). Also, KPL does not have any scheduled repayment of long term debt in FY20 on standalone basis and bank limits have been fully paid off.

Prospects: The acceleration of global growth is expected to provide a solid boost to export demand. The same augurs well for companies like KPL, which are into international trading of various commodities. Furthermore, the buoyancy in the domestic economy is expected to aid the rising share of domestic trading of products in KPL's overall sales. However, ability to manage declining profitability and rising forex risk and effective working capital management would remain critical for KPL's prospects.

Analytical approach: CARE has adopted consolidated approach; since, KPL and majority of its wholly owned subsidiaries are engaged into similar business of international trading. The details of subsidiaries are provided in Annexure-4.

Applicable criteria:
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for wholesale trading
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Factoring linkages in Ratings

About the Company:
Kothari Products Limited (KPL) was set up as a partnership firm and was originally engaged in manufacturing of Pan Masala and Gutka under the brand 'Pan Parag'. KPL was reconstituted as a public limited company in 1994. However, in 1999, the group was divided and KPL was taken over by Mr. Deepak Kothari. With effect from November 2008, the 'Pan Masala' business was demerged into a separate entity, Pan Parag India Limited, managed by Mr. Deepak Kothari. KPL is primarily engaged in international trading of various products and commodities which include coal, agro based commodities, storage devices, transformers, edible oil, steel, tiles, polyvinyl chloride (PVC), metals etc. The company along with its subsidiaries and other group entities is also engaged in real estate development and leasing.

Brief Financials (Consolidated) (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	6371.3	5765.66
PBILDT	110.26	189.68
PAT	55.35	114.82
Overall gearing (times)	1.44	1.41
Interest coverage (times)	2.45	3.23

A: Audited;

Detailed description of key rating drivers (unsupported rating)
Key Rating Strengths
Experienced promoters: Incorporated in 2008, KEL is wholly own subsidiary of KPL and is engaged in similar business as KPL. Extensive experience of the promoters and KPL's longstanding relations with customers and suppliers has enabled KEL to scale up operations in short span of time. Also, KPL has supported KEL with infusion of funds in form of unsecured loans. As on March 31, 2019, unsecured loans stood at Rs 73.28 cr (PY: Rs 128.69 cr).

Diversified product profile and limited inventory risk: The company undertakes international trade of various products and commodities. 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 0 inventory days during FY19 (PY: 0 days).

Steady operating income albeit decreasing margins: The total operating income improved to Rs 1244.88 cr during FY19 (PY: Rs 1026.07 cr) on account of increase in volume of traded goods. However, PBILDT margin declined due to higher cost of traded goods. Also, KEL had higher utilization of bank facilities during FY19 which led to increase in interest cost and resultant decrease in PAT margin to 0.15% (PY: 0.90%). During Q1FY20, KEL reported total operating income of Rs 50 cr with a PBT of Rs 1 cr.

Key Rating Weaknesses
Weak financial risk profile: KEL's overall gearing deteriorated to 3.49x on March 31, 2019 (PY: 1.67x) on account of issuance of optionally convertible debentures to related party which led to overall increase in debt. Interest coverage moderated to 1.24x in FY19 (PY: 2.63x).
Working capital intensive nature of operations: KEL's operating cycle stood at 81 days as on March 31, 2019 (PY: 7 days). KEL extends a credit period of up to 165 days to the buyers which is reflected in average collection period of 177 days in FY19 (PY: 139 days). Average creditors days for FY19 stood at 96 days (PY: 132 days). The decrease is on account of higher increase in cost of traded goods than credit payables.

Customer concentration risk: The customer concentration risk remains high for the company as reflected by a large proportion of revenue coming from top 5-6 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-build 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.

Adequate Liquidity: The current ratio of the company improved to 1.74x as on March 31, 2019 (PY: 1.04x) on account of increase in trade receivables. Average non-fund based working capital utilization for trailing 12 months ended August, 2019 stood high at 92%. Cash and cash equivalents as on March 31, 2019 stood at Rs 130.86 cr (PY: Rs 149.59 cr). Free cash and cash equivalents as on March 31, 2019 stood at Rs 2.72 cr (PY: 6.52 cr). During FY20, KEL is expected to generate GCA of Rs 5.58 cr with no scheduled repayment in FY20.

Prospects: The acceleration of global growth is expected to provide a solid boost to export demand. The same augurs well for companies like KPL, which are into international trading of various commodities. Furthermore, the buoyancy in the domestic economy is expected to aid the rising share of domestic trading of products in KPL's overall sales. However, ability to manage declining profitability and rising forex risk and effective working capital management would remain critical for KPL's prospects.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings

CARE's Policy on Default Recognition
CARE's methodology for wholesale trading
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

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. KEL is engaged in the same business as KPL i.e. international trading of 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)	FY18 (A)	FY19 (A)
Total operating income	1026.07	1244.88
PBILDT	23.32	15.38
PAT	9.28	1.91
Overall gearing (times)	1.67	3.49
Interest coverage (times)	2.63	1.24

A: Audited

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-EPC/PSC	-	-	-	15.00	CARE A3 (CE)
Non-fund-based - ST-BG/LC	-	-	-	369.92	CARE A3 (CE)
Fund-based - ST-EPC/PSC	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	65.08	Provisional CARE A3 (CE)
Un Supported Rating-Un Supported Rating (Short Term)	-	-	-	0.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - ST-EPC/PSC	ST	15.00	CARE A3 (CE)	1)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)	1)CARE A2+ (SO) (20-Sep-17)	1)CARE A2+ (SO) (12-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	369.92	CARE A3 (CE)	1)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)	1)CARE A2+ (SO) (20-Sep-17)	1)CARE A2+ (SO) (12-Oct-16)
3.	Fund-based - ST-	ST	-	-	1)Provisional	1)Provisional	1)Provisional	1)Provisional

	EPC/PSC				CARE A3 (SO) (07-Jun-19)	CARE A3 (SO) (04-Oct-18) 2)CARE A3 (SO) (24-Aug-18) 3)Provisional CARE A2 (SO) (01-Jun-18)	CARE A2+ (SO) (20-Sep-17)	CARE A2+ (SO) (12-Oct-16)
4.	Non-fund-based - ST-BG/LC	ST	65.08	Provisional CARE A3 (CE)	1)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)	1)Provisional CARE A2+ (SO) (20-Sep-17)	1)Provisional CARE A2+ (SO) (12-Oct-16)
5.	Un Supported Rating-Un Supported Rating (Short Term)	ST	0.00	CARE A3	-	-	-	-

Annexure-3: Details of covenants - NA

Annexure-4: List of entities whose financials have been combined

Subsidiaries
KPL Exports Limited
Kothari Products Singapore Pte Limited
Savitrimata Realtors Private Limited
Pinehills (Singapore) Pte Ltd
MK Web Tech Pvt Ltd
Adyashakti Realtors Pvt Ltd

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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