

KPL Exports Limited
October 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Short Term Bank Facilities@	381.00 (reduced from 384.92)	CARE A3 (CE) [A Three (Credit Enhancement)]	Reaffirmed
Short Term Bank Facilities	8.00	CARE A3 (A Three)	Assigned
Total	389.00 (Rupees three hundred eighty nine crore only)		

Details of instruments/facilities in Annexure-1

@The facilities are backed by unconditional and irrevocable corporate guarantee (CG) from Kothari Products Ltd (KPL, last rated CARE BBB- Negative and CARE A3 in August 2019, ratings were withdrawn as the company had surrendered its bank limits and it continues to be debt free)

Detailed Rationale & Key Rating Drivers for CE rating

The above rating is 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 albeit reduction in 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 FY20 (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 and low profit margins. The ratings also take into consideration the company's 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.

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

- Improvement in margins and ROCE above 12% on sustained basis.
- Reduction in operating cycle below 90 days and strengthening of liquidity position on sustained basis.
- Reduction in exposures towards group companies

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

- Deterioration in overall gearing beyond 1.5 times
- Increase in exposure towards group companies and weakening of liquidity position

Detailed Rationale & Key Rating Driver for standalone ratings

The ratings assigned to the bank facilities of KPL Exports Limited derive strength from experienced promoters and their long standing relationship with buyers and suppliers, sizeable scale of operations albeit low profitability, diversified product profile with limited inventory risk and adequate liquidity. However, the ratings remained constraint due to modest 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.

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

- Improvement in margins and ROCE above 12% on sustained basis.
- Reduction in operating cycle and strengthening of liquidity position on sustained basis.

Negative rating sensitivities- 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 (CE Ratings)**Key Rating Strengths**

Experienced management and resourceful promoters: 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

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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 is currently engaged in trading of multiple commodities which includes electronics such as storage devices, transformers, hard disk, etc, agro based commodities like soya bean cashew and rice, edible oil, tiles, etc. The diversified product portfolio safeguards the company from the risk of slowdown in any one segment of the industry. The inventory holding period is very low and stood at 13 days for FY20 (PY: 12 days) as most of the trading activities undertaken by KPL are characterized by back to back sales arrangements.

Moderate capital structure and coverage indicators: KPL's consolidated overall gearing improved to 1.00x as on March 31, 2020 (PY: 1.47x) on account overall debt reduction on consolidated level. Total debt to GCA moderated from 13.81x in FY19 to 23.20x in FY20 due to lower accretion of profits and lower cash accruals. On standalone basis, overall gearing as on March 31, 2020 improved and stood at 0.78x (PY: 0.91x) on account of surrendering of bank facilities by KPL.

Key Rating Weaknesses

Decline in total operating income and low profit margins: The consolidated total income declined by 25.72% y-o-y to Rs. 4282.76 crore during FY20 (PY: Rs. 5765.66 cr). The PBILDT margins moderated to 2.53% in FY20 from 3.29% in FY19 largely on account of lower contribution from real estate segment. During Q1FY21, the company reported operating income, PBILDT and Loss of Rs 770.42 cr, Rs. 16.39 cr and Rs. (2.57) cr respectively (on q-o-q basis- Rs. 1015.05 cr, Rs. 53.92 and profit of Rs. 16.64 cr respectively) amid impact of covid-19 on international trade.

Large working capital requirements: On a consolidated basis, KPL's operating cycle elongated to 145 days in FY20 from earlier 50 days in FY20. After surrendering of bank facilities by the parent entity, the suppliers were no longer backed by LC and KPL had to pay some of the suppliers upfront leading to decrease in average creditor's day from 95 days in FY19 to 63 days in FY20. Due to a delay in the collections in March, 2020 due to covid-19, KPL's average collection period increased to 195 days (PY: 132 days).

Customer concentration risk: The company has high customer concentration risk as the company's top 6-8 customers contribute to majority of the overall sales. However, the long standing association with its customers mitigates this risk to some extent.

Foreign exchange fluctuation risks: 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 it decides margins after factoring in the said risk. The majority of the sales of the company are backed by the certain advances from the overseas clients, which the company immediately converts into Indian Rupee. However, the company has policy of hedging forex exposure by using forward contracts.

High exposure towards group entities: KPL has extended corporate guarantees to the lenders of 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 and would remain a key monitorable.

Liquidity: Adequate: KPL reported steady cash accruals of around Rs.47.63 crore during FY20. The company has comfortable and improved current ratio of 2.26x (PY: 1.64x) as on March 31, 2020. Cash and cash equivalents as on March 31, 2020 stood at Rs. 128.27 cr (PY: 229.84 cr). The operating cycle of the company moderated to 145 days in FY20 (PY:50 days) due to higher collection period and lower creditor days as the company has surrendered its banking facilities and have to pay some creditors upfront. Also, KPL does not have any scheduled repayment of long term debt or capex requirements.

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 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 for CE rating: 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-5.

Analytical approach for standalone ratings: Standalone

Applicable Criteria

[Rating Methodology- Factoring linkages in Ratings](#)

[Criteria for assigning outlook and Credit Watch](#)

[Liquidity Analysis of Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's Rating Methodology- Wholesale Trading](#)

About the Company (guarantor)

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)	FY19 (A)	FY20 (A)
Total operating income	5765.66	4282.76
PBILDT	189.68	108.14
PAT	114.82	34.74
Overall gearing (times)	1.47	1.00
Interest coverage (times)	3.23	2.16

A: Audited

Detailed description of the key rating drivers (Standalone)

Key Rating Strengths

Experienced promoters: Incorporated in 2008, KEL is a wholly owned subsidiary of KPL and is engaged in a similar 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. As on March 31, 2019, unsecured loans stood at Rs 203.59 cr (PY: Rs 73.28 cr).

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 0 inventory days during FY20 (PY: 0 days).

Sizeable scale of operations albeit low profitability: The total operating income of the company declined by 16.83% to Rs 1034.78 cr during FY20 (PY: Rs 1244.18 cr) on account of lower sales in terms of trade volume. However, the PBILDT margin improved from 1.18% in FY19 to 1.58% in FY20 on account of forex gain on foreign currency transactions. With lower interest cost, KEL reported higher PAT margin of 0.54% in FY20 (PY: 0.15%).

Key Rating Weaknesses

Modest financial risk profile: Overall gearing of the company deteriorated to 3.91x as on March 31, 2020 (PY: 0.49x) on account of availing of additional unsecured loans from holding company- KPL. The interest coverage ratio improved from 1.18x in FY19 to 2.05x in FY20 on account of reduced interest cost and higher operating profit.

Large working capital requirements: KEL's operating cycle stood elongated at 71 days as on March 31, 2020 (PY: 38 days). KEL extends a credit period of up to 165 days to the buyers but during Q4FY20 the collections got delayed on account of covid-19 due to which the collection period increased which is reflected in average collection period of 284 days in FY20 (PY: 177 days). Average creditors days for FY20 stood at 207 days (PY: 139 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-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 by using forward contracts. KEL reported forex gain of 26.84 cr in FY 20 (PY: loss of Rs. 9.16 cr).

Liquidity-Adequate: The current ratio of the company improved to 1.08x as on March 31, 2020 (PY: 1.06x) on account of increase in trade receivables. Average non-fund based working capital utilization for trailing 12 months ended August, 2019 stood high at 88.46%. Free cash and cash equivalents as on March 31, 2020 stood at Rs 0.81 cr (PY: Rs. 2.72 cr). During FY20, KEL is expected to generate GCA of Rs 7.96 cr with no scheduled repayment in FY21.

Prospects: Covid-19 pandemic has resulted into acute market volatility/disruptions across the globe. However, as per "Atma-nirbhar 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.

Analytical approach: Standalone

Applicable criteria

[CARE's methodology for wholesale trading](#)

[Factoring linkages in Ratings](#)

[Criteria for assigning outlook and Credit Watch](#)

[Liquidity Analysis of Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

About the Company (KPL Exports Ltd)

Incorporated in April 2008, KEPL is a wholly owned subsidiary of KPL. KEPL is a part of Kothari group which is promoted by Mr. Deepak Kothari. KEPL 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 (KPL Exports) (Rs. Crore)	FY19 (A)	FY20 (A)
Total operating income	1244.18	1034.78
PBILDT	14.69	16.35
PAT	1.91	5.54
Overall gearing (times)	3.49	3.91
Interest coverage (times)	1.18	2.05

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	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 (CE)
Non-fund-based – ST-BG/LC	-	-	-	370.00	CARE A3 (CE)
Non-fund-based-ST-BG/LC				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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based – ST-EPC/PSC	ST	11.00	CARE A3 (CE)	-	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)	1)CARE A2+ (SO) (20-Sep-17)
2.	Non-fund-based – ST-BG/LC	ST	370.00	CARE A3 (CE)	-	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)	1)CARE A2+ (SO) (20-Sep-17)
3.	Non-fund-based – ST-Forward Contract	ST	8.00	CARE A3				
4.	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)	1)Provisional CARE A2+ (SO) (20-Sep-17)
5.	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)	1)Provisional CARE A2+ (SO) (20-Sep-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

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

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

Annexure 5: List of entities whose financials have been combined

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

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

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