Kothari Products Limited

June 07, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Remarks**
Long Term Bank Facilities	4.50	**CARE BBB-; Negative [Triple B Minus, Outlook: Negative]**	**Reaffirmed**
Short Term Bank Facilities	1495.50	**CARE A3 [A Three]**	**Reaffirmed**
Total	**1500.00 (Rupees one thousand and five hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the 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, diversified product range 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) marked by decline in total operating income. The ratings also take into consideration 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 and high customer concentration risk. The ratings take cognizance of the fact that the company has fully repaid its bank limits through funds raised via unsecured loans from directors 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.

Outlook: Negative

The outlook is 'Negative' in view of the expectation of subdued operational performance in short to medium term. The outlook may be revised to 'Stable' if KPL is able to report improvement in its total income and profitability margins thereby improving its debt coverage metrics and liquidity position.

Detailed description of the key rating drivers

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 to develop established relationships with customers and suppliers.

Diversified product profile and limited inventory risk: The company undertakes international trade of various products and commodities. 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: On a consolidated basis, KPL's overall gearing improved and stood moderate at 1.01x on March 31, 2019 (PY: 1.44x). Interest coverage continues to remain comfortable at 3.78x in FY19 (PY: 2.45x). Total debt to GCA improved to 9.31x on March 31, 2019 (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; however, formal communication in this regard is yet to be received.

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

Key Rating Weaknesses

Decline in operating income albeit improving margins: The consolidated total operating income of the company declined to Rs 5798.27 crore in FY19 (PY: Rs 6379.50). However, the PBILDT margins improved from 1.86 % in FY18 to 3.83% in FY19 on account of decrease in cost of traded goods. Consequently, PAT margins also improved despite higher interest expenses to 2.13% in FY19 (PY: 0.87%).

Moderate liquidity position: 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 LCs, the creditor days has reduced to 94 days in FY19 (PY: 131 days). The same has resulted in increase in working capital cycle from negative 19 days in FY18 to 48 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.

Analytical approach: Consolidated

Since, KPL and majority of its wholly owned subsidiaries are engaged into similar business of international trading, a consolidated approach has been considered in the credit risk assessment. The details of subsidiaries are provided in Annexure-3.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology: Factoring Linkages in Ratings]
[Rating Methodology - Wholesale Trading]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]

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	6371.30	5798.27
PBILDT	110.26	222.29
PAT	55.35	123.57
Overall gearing (times)	1.44	1.01
Interest coverage (times)	2.45	3.78

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

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 - LT-Cash Credit	-	-	-	4.50	CARE BBB-; Negative
Fund-based - ST-EPC/PSC	-	-	-	90.50	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	1405.00	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 - LT-Cash Credit	LT	4.50	CARE BBB-; Negative	-	1)CARE BBB-; Negative (04-Oct-18) 2)CARE BBB-; Negative (24-Aug-18) 3)CARE BBB+; Stable (01-Jun-18)	1)CARE A-; Stable (20-Sep-17)	1)CARE A- (12-Oct-16)
2.	Fund-based - ST-EPC/PSC	ST	90.50	CARE A3	-	1)CARE A3 (04-Oct-18) 2)CARE A3 (24-Aug-18) 3)CARE A2 (01-Jun-18)	1)CARE A2+ (20-Sep-17)	1)CARE A2+ (12-Oct-16)
3.	Non-fund-based - ST-BG/LC	ST	1405.00	CARE A3	-	1)CARE A3 (04-Oct-18) 2)CARE A3 (24-Aug-18) 3)CARE A2 (01-Jun-18)	1)CARE A2+ (20-Sep-17)	1)CARE A2+ (12-Oct-16)

Annexure -3

Name of entity	KPL's Holding (%)
MK Web-Tech Pvt. Ltd.	100.00
KPL Exports Pvt. Ltd.	100.00
Kothari Products Singapore Pte. Ltd.	99.99
Savitrimata Realtors Pvt. Ltd.	51.00
Blackplinth Realtors Pvt. Ltd.	54.00
Adyashakti Realtors Pvt Ltd.	100.00

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.*

Contact us

Media Contact
Name-Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name- Mr. Ajay Dhaka
Contact no. - +91-11-45333218
Email ID- ajay.dhaka@careratings.com

Business Development Contact
Name- Ms. Swati Agarwal
Contact no. : +91-11-45333200
Email ID: swati.agarwal@careratings.com

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