

## Kothari Products Limited

October 04, 2018

### Ratings

| Facilities                 | Amount<br>(Rs. crore)  | Rating <sup>1</sup>  | Rating Action     |
|----------------------------|--|--|-------------------|
| Long term Bank Facilities  | 4.50   | <b>CARE BBB-; Negative<br/>[Triple B Minus, Outlook:<br/>Negative]</b> | <b>Reaffirmed</b> |
| Short-term Bank Facilities | 1495.50  | <b>CARE A3<br/>[A Three]</b>   | <b>Reaffirmed</b> |
| <b>Total</b>               | <b>1500.00<br/>(Rupees one thousand and five<br/>hundred crore only)</b> |  |                   |

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 FY18 (refers to the period April 1 to March 31) and Q1FY19 (Prov.) (refers to the period from April 1 to June 30) thereby adversely impacting the debt coverage metrics and liquidity position. 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.

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 and further weakening of the liquidity position. The outlook may be revised to 'Stable' if KPL is able to report improvement in its 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 11 days as on March 31, 2018. (PY: 11 days).

**Moderate financial risk profile:** On a consolidated basis, KPL's overall gearing stood moderate at 1.44x on March 31, 2018 (PY: 0.80x), driven by high reliance on working capital debt. Interest coverage continue to remain comfortable at 2.45x in FY18 (PY: 2.45x). However, total debt to GCA deteriorated to 26.11x on March 31, 2018 (PY: 9.11x), owing to higher total debt and lower GCA due to reduction in margins.

#### Key Rating Weaknesses

**Decline in profit margins and cash accruals:** The consolidated PBILDT margins declined to 1.73% in FY18 (PY: 2.99%) largely on account of significant forex loss and lower interest income. Consequently, PAT margins also reduced despite lower interest expenses which led to reduction in gross cash accruals to Rs.52.31 crore in FY18 (PY: Rs. 83.50 crore). Further, on a standalone basis, KPL's total income declined by 16% to Rs. 924.55 cr during Q1FY19 from Rs. 1104.08 cr in

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Q1FY18 due to lower sales volume and reduction in interest income. PAT margin also declined largely due to lower total income, higher finance cost and forex losses.

**Moderate liquidity position:** On a consolidated basis, free cash and liquid investments reduced to Rs. 26.42 crore as on March 31, 2018 (PY: Rs. 73.52 crore), thereby reflecting reduced financial flexibility. Though, the operating cycle of the company was negative as on March 31, 2018, it has high reliance on the non-fund based limits for meeting its working capital requirements reflected by high utilisation level. The company has also sold a piece of land worth Rs. 300 cr during 4MFY19 (refers to the period April 1 to July 31) in one of its subsidiaries.

**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 the tune of Rs.420 crore as on March 31, 2018 (PY: Rs.383 crore) 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 a key credit monitorable.

**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-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. On a consolidated basis, the company reported forex loss of Rs.54.20 crore in FY18 vis-à-vis gain of Rs.15.24 crore in FY17.

#### **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.

#### **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 (0.48% share in total sales in FY18).

| <b>Brief Financials (Consolidated) (Rs. crore)</b> | <b>FY17 (A)</b> | <b>FY18 (A)</b> |
|--|-----------------|-----------------|
| Total operating income                             | 6341.40         | 6371.30         |
| PBILD  | 189.77          | 110.26          |
| PAT  | 75.72           | 55.35           |
| Overall gearing (times)                            | 0.80            | 1.44            |
| Interest coverage (times)                          | 2.45            | 2.45            |

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

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### **Annexure-1: Details of Instruments/Facilities**

| <b>Name of the Instrument</b> | <b>Date of Issuance</b> | <b>Coupon Rate</b> | <b>Maturity Date</b> | <b>Size of the Issue (Rs. crore)</b> | <b>Rating assigned along with Rating Outlook</b> |
|-------------------------------|-------------------------|--------------------|----------------------|--------------------------------------|--|
| Fund-based - LT-Cash Credit   | -                       | -                  | -                    | 4.50                                 | CARE BBB-;<br>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 2018-2019                            | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1.      | Fund-based - LT-Cash Credit            | LT              | 4.50                           | CARE BBB-; Negative | 1)CARE BBB-; Negative (24-Aug-18)<br>2)CARE BBB+; Stable (01-Jun-18) | 1)CARE A-; Stable (20-Sep-17)             | 1)CARE A- (12-Oct-16)                     | 1)CARE A- (15-Oct-15)                     |
| 2.      | Fund-based - ST-EPC/PSC                | ST              | 90.50                          | CARE A3             | 1)CARE A3 (24-Aug-18)<br>2)CARE A2 (01-Jun-18)                       | 1)CARE A2+ (20-Sep-17)                    | 1)CARE A2+ (12-Oct-16)                    | 1)CARE A2+ (15-Oct-15)                    |
| 3.      | Non-fund-based - ST-BG/LC              | ST              | 1405.00                        | CARE A3             | 1)CARE A3 (24-Aug-18)<br>2)CARE A2 (01-Jun-18)                       | 1)CARE A2+ (20-Sep-17)                    | 1)CARE A2+ (12-Oct-16)                    | 1)CARE A2+ (15-Oct-15)                    |

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