Kothari Products Limited

June 01, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long Term Bank Facilities	4.50	**CARE BBB+; Stable [Triple B Plus, Outlook: Stable]**	**Revised from CARE A-; Stable [Single A Minus, Outlook: Stable]**
Short Term Bank Facilities	1495.50	**CARE A2 [A Two]**	**Revised from CARE A2+ [A Two Plus]**
Total	**1500.00 (Rupees one thousand and five hundred crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Kothari Products Limited (KPL) takes into account deterioration in the company's financial performance marked by reduction in profit margins resulting in lower gross cash accruals, moderation in liquidity position and significant increase in the debt levels during FY18 (refers to the period from April 1 to March 31). The ratings 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. 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. 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.

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 which include agro based commodities, coal, construction material like tile, machines and spares, scrap and PVC, electronic parts & equipments, storage devices, crude palm oil, 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 11 days as on March 31, 2017 (PY: 12 days).

Moderate financial risk profile: On a consolidated basis, KPL's overall gearing stood comfortable at 0.52x on March 31, 2018 (PY: 0.30x), driven by healthy net worth base of Rs.1,012.60 crore. Interest coverage continued to remain moderate at 2.58x in FY18 (PY: 2.27x). However, total debt to GCA deteriorated to 10.10x on March 31, 2018 (PY: 3.38x), owing to higher total debt and lower GCA due to reduction in margins.

Key Rating Weaknesses

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

Decline in profitability margins and cash accruals: KPL's consolidated PBILDT margins declined to 1.82% in FY18 from 2.78% in FY17 largely on account of significant forex loss and lower interest income. Consequently, PAT margins also reduced to 0.87% in FY17 (PY: 1.20%) despite lower interest expenses. Decline in profitability led to significant reduction in gross cash accruals to Rs.52.31 crore in FY18 from Rs.83.50 crore in FY17.

Moderation in liquidity position: On a standalone basis, KPL's liquid investments in mutual funds fell to Rs.3.48 crore on March 31, 2018 (PY: Rs.12.35 crore). Moreover, the unencumbered cash and bank balance declined to Rs.12.67 crore as on March 31, 2018 (PY: Rs.54.45 crore as on March 31, 2017). Total liquid investments and bank deposits reduced to Rs.592.07 crore as on March 31, 2018 (PY: Rs.1,221.74 crore), thereby reflecting moderation in KPL's liquidity position.

Working-capital intensive operations: Though, the operating cycle of the company is negative as on March 31, 2018, it has high reliance on the non-fund based limits for meeting its working capital requirements. KPL extends a credit period of up to 165 days to the buyers, while it opens L/C with a usance period of 180 days. Therefore, the company has sufficient cushion for payment of L/C in case there is some delay from the debtors.

High exposure to group companies: KPL has extended corporate guarantees to the tune of Rs.420 crore as on March 31, 2017 (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-build in the company's business model and it decides margins after factoring in the said risk. Moreover, the company has policy of hedging about 60-70% of its forex exposure. On a standalone basis, the company reported forex loss of Rs.46.93 crore in FY18 vis-à-vis gain of Rs.12.55 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
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector

About the Company

Kothari Products Limited (KPL) was set up as a partnership firm by Mr. M.M. Kothari and family in 1973. It 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, edible oil, steel, tiles and polyvinyl chloride (PVC). 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).

Brief Financials (Consolidated) (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	6324.53	6379.50
PBILDT	175.58	115.87
PAT	75.72	55.35
Overall gearing^ (times)	0.30	0.52
Interest coverage (times)	2.27	2.58

A: Audited *^excluding acceptances/creditor on LCs*

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Ajay Kumar Dhaka
Tel: +91-11-45333218
Mobile: +91-8826868795
Email: ajay.dhaka@careratings.com

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

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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/outlooks 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 /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

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+; Stable
Fund-based - ST-EPC/PSC	-	-	-	115.50	CARE A2
Non-fund-based - ST-BG/LC	-	-	-	1380.00	CARE A2

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+; Stable	-	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	115.50	CARE A2	-	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	1380.00	CARE A2	-	1)CARE A2+ (20-Sep-17)	1)CARE A2+ (12-Oct-16)	1)CARE A2+ (15-Oct-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691