Kothari Products Limited

September 20, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	4.50	**CARE A-; Stable [Single A Minus, Outlook; Stable]**	**Reaffirmed**
Short-term Bank Facilities	1495.50	**CARE A2+ [A Two Plus]**	**Reaffirmed**
Total Facilities	**1500.00 (Rupees Fifteen 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, its diversified range of traded products 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 and its healthy liquidity position. 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 extensive experience of the promoters and the company's long track record of operations provide the necessary expertise and established relationships with various stakeholders for growing its business.

Diversified product profile and limited inventory risk: KPL is engaged in trading of multiple commodities. 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 12 days as on March 31, 2017 (PY: 11 days).

Moderate financial risk profile: On a consolidated basis, KPL's overall gearing improved to 1.06x as on March 31, 2017 (PY: 1.52x) on account of reduction in total debt coupled with accretion of profits to net worth. Further, the debt coverage indicators continued to remain moderate.

Healthy liquidity profile: On a consolidated basis, KPL had liquid investments in traded securities to the tune of Rs. 42.32 crore as on March 31, 2017 (PY: Rs. 35.00 crore). KPL's liquidity is further supported by free cash and cash equivalent of Rs. 75.18 crore as on March 31, 2017 (PY: Rs.135.59 crore). This is over and above the FDR's and mutual funds of Rs. 1,567.27 crore encumbered for credit facilities availed by it. The average utilization of fund based limits of Rs.110 crore stood low at 10% over the same period.

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

Key Rating Weaknesses

Working-capital intensive operations: Though, the operating cycle of the company is negative 24 days as on March 31, 2017 (PY: Negative 25 days), 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.383 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 totalling to Rs.154.86 crore as on March 31, 2017 (PY: Rs.152.51 crore). 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 gain of Rs.12.56 crore in FY17 (PY: Loss of Rs.28.62 crore).

Analytical approach: Consolidated

Since, KPL and 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 (2% share in total sales in FY17).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	6858.87	6324.53
PBILDT	179.35	175.58
PAT	67.07	75.72
Overall gearing (times)	1.52	1.06
Interest coverage (times)	2.38	2.27

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (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.*

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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 A-; 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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	4.50	CARE A-; Stable	-	1)CARE A- (12-Oct-16)	1)CARE A- (15-Oct-15)	1)CARE A- (13-Feb-15)
2.	Fund-based - ST-EPC/PSC	ST	115.50	CARE A2+	-	1)CARE A2+ (12-Oct-16)	1)CARE A2+ (15-Oct-15)	1)CARE A2+ (13-Feb-15)
3.	Non-fund-based - ST-BG/LC	ST	1380.00	CARE A2+	-	1)CARE A2+ (12-Oct-16)	1)CARE A2+ (15-Oct-15)	1)CARE A2+ (13-Feb-15)

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