KPL/2018-19/BSE
27.08.2018

KOTHARI
PRODUCTS LIMITED

Bombay Stock Exchange Ltd. Phiroze Jeejeebhoy Towers 25^{th} Floor, Dalal Street MUMBAI - 400 001 Scrip Code : 530299	National Stock Exchange Of India Ltd. Exchange Plaza 5^{th} Floor Plot No.C/1, G Block Bandra Kurla Complex Bandra (E) MUMBAI - 400 051 Scrip Code : KOTHARIPRO

Sub : Submission of Information under Regulation 30 of the SEBI (Listing Obligation and Disclosure Requirement) Regulations, 2015

Dear sir,

With reference to the captioned subject we wish to inform you that the Credit Analysis & Research Limited (CARE) has revised the long term and Short term credit rating of the Company as per its letter attached herewith.

Please take the above information on records.

Thanking you,

Yours faithfully
for **KOTHARI PRODUCTS LTD.**

KOTHARI PRODUCTS LTD. KANPUR

(RAJ KUMAR GUPTA)
CS & COMPLIANCE OFFICER
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Encl : As above

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CIN No. - L 16008 UP 1983 PLC 006254

Kothari Products Limited

August 24, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Remarks
Long Term Bank Facilities	4.50	**CARE BBB-; Negative [Triple B Minus, Outlook: Negative]**	**Revised from CARE BBB+; Stable [Triple B Plus, Outlook: Stable]**
Short Term Bank Facilities	1495.50	**CARE A3 [A Three]**	**Revised from CARE A2 [A Two]**
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 operational performance marked by lower total income and significant decline in profits during Q1FY19 (Prov.) (refers to the period from April 1 to June 30) thereby adversely impacting the debt coverage metrics and liquidity position. 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. However, the rating strengths are partially off-set by the company's high exposure to the group entities in the form of loans & advances, investments and corporate guarantees, working capital intensive operations, 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 has been revised to '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 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, 2018. (PY: 12 days).

Moderate financial risk profile: On a consolidated basis, KPL's overall gearing stood moderate at 1.35x on March 31, 2018 (PY: 1.06x), driven by high reliance on working capital debt. Interest coverage continue to remain moderate at 2.10x in FY18 (PY: 2.26x). However, total debt to GCA deteriorated to 24.43x on March 31, 2018 (PY: 12.12x), owing to higher total debt and lower GCA due to reduction in margins.

Key Rating Weaknesses

Decline in total income and profitability margins: On a standalone basis, KPL's total income declined by 16% y-o-y to Rs.924.55 crore during Q1FY19 due to lower sales volume and reduction in interest income. PAT margin declined significantly to 0.32% in Q1FY19 (PY: 0.67%) largely owing to lower total income, higher finance cost and forex losses. KPL's consolidated PBILDT margins had also declined to 1.48% in FY18 from 2.78% in FY17 largely on account of significant

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

forex loss and lower interest income. Consequently, PAT margins also reduced to 0.87% in FY18 (PY: 1.20%) despite lower interest expenses.

Weakening of liquidity position: On a standalone basis, free cash and liquid investments reduced to Rs.16.15 crore as on March 31, 2018 (PY: Rs.96.77 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, which stood at 99% for the trailing 12 months ending June 2018.

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, 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).

Brief Financials (Consolidated) (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	6,324.53	6,355.56
PBILDT	175.58	94.52
PAT	75.72	55.35
Overall gearing (times)	1.06	1.35
Interest coverage (times)	2.27	2.10

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

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**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.

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	-	-	-	115.50	CARE A3
Non-fund-based - ST-BG/LC	-	-	-	1380.00	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+; 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	115.50	CARE A3	1)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	1380.00	CARE A3	1)CARE A2 (01-Jun-18)	1)CARE A2+ (20-Sep-17)	1)CARE A2+ (12-Oct-16)	1)CARE A2+ (15-Oct-15)

CARE Ratings
Professional Risk Opinion

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