

December 13, 2024

Kothari Metals Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|--------------------------------------|-------------------------------------|--|
| Long term - Interchangeable | (101.00) ¹ | (130.00) ² | [ICRA]A-(Stable); reaffirmed and assigned for rated amount |
| Short term non-fund based- Letter of credit | 331.00 | 455.00 | [ICRA]A2+; reaffirmed and assigned for rated amount |
| Total | 331.00 | 455.00 | |

*Instrument details are provided in Annexure-I

Rationale

The ratings continue to factor in the extensive experience of the promoters of Kothari Metals Limited (KML) in the metal trading business along with their established relationships with international suppliers of nickel and other materials. The ratings also favourably factor in the diversified and reputed customer base of the company, with only ~31% of the revenues derived from the top 10 customers in FY2024. Besides, the company's strategy of procuring a significant volume of metals from the primary manufacturers keeps its costs low.

The ratings also favourably factor in the comfortable financial risk profile with healthy accruals and nil long-term debt position as on date. The liquidity also remains comfortable with free cash and liquid investment of ~Rs. 25 crore as on June 30, 2024. In FY2024, the revenue growth declined by 4.5% to Rs. 1,656.5 crore due to a decline in sales realisation; however, the overall sales volume increased by 17.6%. While the operating margin contracted by 120 basis points in FY2024, the overall cash flow from operations remained comfortable. In the current fiscal, the financial performance is expected to remain steady with the revenue likely to be maintained at the previous year's level. The company has already achieved a revenue of Rs. 865 crore till September 2024. In addition, the increase in rental income is expected to further support the overall margins of the entity in the current fiscal.

The ratings are, however, constrained by the limited value addition, given the trading nature of KML's business, which results in low profitability. ICRA also notes that the company maintains a certain level of freehold inventory, exposing its margins to the volatility in metal prices. However, the risk is mitigated to some extent by the hedging strategy adopted by the company. Also, the supplier concentration risk remains on the higher side as the top two suppliers account for over 50% of the company's total purchases. ICRA, however, notes that the suppliers are among the largest producers of metals, globally. KML imports a major portion of the materials traded, which exposes the company's cash flows to the risks of foreign exchange fluctuations. A formal hedging mechanism adopted by the company, however, mitigates the said risk to an extent.

The ratings also positively factor in the company's prudent working capital management and the cash and liquid investments balance as on date. This, along with the low reliance on fund-based working capital facilities, provides a considerable financial flexibility to the company and supports its debt coverage indicators.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that KML would continue to benefit from the lack of domestic manufacturing capacities for most of the metals that it trades in, and a steady rental income from investment properties.

¹ Sublimit of letter of credit facilities

² Sublimit of letter of credit facilities

Key rating drivers and their description

Credit strengths

Comfortable financial risk profile – KML's revenue dipped by 4.5% to Rs. 1,656.6 crore in FY2024 with an OPBDITA of Rs. 53.8 crore compared to a scale of Rs. 1,734.4 crore and an operating profit of Rs. 75.8 crore in FY2023. The sales volume increased, though the commodity prices declined, which resulted in lower profits and revenue. Further, with the increased supply of nickel, the profitability of the company declined with rising competition. However, the profitability is expected to improve with steady rental income and an improvement in nickel prices, going forward. Further, KML has nil long-term debt, which leads to favourable debt coverage indicators and a comfortable capital structure. Moreover, a large portfolio of investment in rent generating assets, free cash and liquid investment, unutilised bank lines and healthy cash accruals from business provide high financial flexibility to the company.

Vast experience of promoters; established relationships with international suppliers – KML's promoters have an experience of over four decades in the business of metal trading. The long association with the industry has enabled the company to establish good relationships with primary metal manufacturers and miners, globally.

Diversified customer base with reputed profiles – KML has a diversified customer base across auto, ferrous and non-ferrous metal manufacturers, battery manufacturers etc. The top 10 customers have contributed 24-31% to KML's revenue over the years. Its customers enjoy healthy credit profiles, which reduce the counterparty risks. Moreover, the company's sales are backed by letters of credit, which secure the payments.

Prudent hedging policy – KML follows a prudent hedging policy, whereby it mitigates the risks arising out of fluctuations in commodity prices as well as exchange rates.

Credit challenges

Low value addition due to trading nature of business limits profit margins – KML's trading business is low value additive in nature, which limits its profit margins. The company's ability to maintain its profit margins would be a key monitorable.

High supplier concentration risk – KML has high supplier concentration risk as over 50% of the company's metal procurement is made from two international suppliers. Moreover, the dependence on nickel is high, which accounts for 65% of the overall revenues.

Liquidity position: Adequate

KML is expected to maintain an adequate liquidity position, aided by its healthy cash flow from business, zero long-term debt repayment liability, minimal capital expenditure requirement and free cash and liquid investment of ~Rs. 25 crore as on June 30, 2024. The company's unutilised limits provide additional support to its liquidity. However, KML's ability to maintain the liquidity buffer for the scheduled LC maturity on a monthly basis will remain critical from a liquidity perspective.

Rating sensitivities

Positive factors – ICRA could upgrade KML's ratings if the company is able to significantly scale up its operations, while maintaining healthy operating margins and a comfortable liquidity position.

Negative factors – A significant decline in the revenues or the operating profitability could exert pressure on the ratings. A considerable deterioration in the liquidity position owing to a stretch in the working capital cycle, or the TOL/TNW remaining higher than 1.5 times, on a sustained basis, may trigger a downward rating revision.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | Standalone |

About the company

Kothari Metals Limited, established in 1977, trades in ferrous and non-ferrous metals. The company is involved in the importing and trading of products like pure nickel, tin ingot, silicon metal, magnesium ingot, ferro chrome etc. These metals are sold to customers across the auto, ferrous and non-ferrous metals, defence and battery sectors in India. The company has its head office in Kolkata and branches/warehouses across India.

Key financial indicators (audited)

| KML Standalone | FY2023 | FY2024 |
|--|---------|---------|
| Operating income | 1,734.4 | 1,656.6 |
| PAT | 61.3 | 49.5 |
| OPBDIT/OI | 4.4% | 3.2% |
| PAT/OI | 3.5% | 3.0% |
| Total outside liabilities/Tangible net worth (times) | 1.0 | 0.6 |
| Total debt/OPBDIT (times) | 0.0 | 0.6 |
| Interest coverage (times) | 73.9 | 28.2 |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

| Instrument | Type | Amount rated (Rs. crore) | Current rating (FY2025) | | Chronology of rating history for the past 3 years | | | |
|------------|-----------------------|--------------------------|-------------------------|------------------|---|-------------------------|------------------|-------------------------|
| | | | Date & rating in FY2025 | | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2022 |
| | | | Dec 13, 2024 | Nov 20, 2024 | Oct 23, 2023 | Nov 03, 2022 | Oct 07, 2022 | Sept 20, 2021 |
| 1 | Interchangeable | (130.0) ³ | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) | [ICRA]BBB+(Stable) |
| 2 | Non-fund based Limits | 455.00 | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ | [ICRA]A2+ |

³ Sublimit of letter of credit facilities

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-----------------------------|----------------------|
| Long term – Interchangeable | Simple |
| Non-fund-based limits | Very Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA | Long term - Interchangeable | NA | NA | NA | (130.00) ⁴ | [ICRA]A- (Stable) |
| NA | Non-fund based limits | NA | NA | NA | 455.00 | [ICRA]A2+ |

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

⁴ Sublimit of letter of credit facilities

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