

August 13, 2019

Kothari Metals Limited: [ICRA]BBB+(Stable)/A2+ ratings reaffirmed; rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Cash Credit	1.50	0.00	-
Fund Based - Cash Credit	(65.00) ¹	(86.00) ²	[ICRA]BBB+ (Stable); Reaffirmed
Non-Fund Based - Bank Guarantee	(1.00) ²	0.00	-
Non-Fund Based- Letter of Credit	223.50	264.00	[ICRA]A2+; Reaffirmed
Total	225.00	264.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings considers the healthy growth in KML's business volumes in the last two financial years and steady cash accruals. ICRA notes that in the last few years, the company has been able to increase its market share by replacing some of the unorganised traders and the trend is likely to continue going forward as well. The rating action also factors in the company's demonstrated ability to grow its business in a market that is prone to volatility in demand and prices. The ratings continue to factor in the experience of the promoters of nearly four decades in metal and non-metal trading business along with established relationship with international suppliers of nickel and other materials. The company's strategy of procuring a significant quantity of metals from the primary manufacturers helps it in keeping its costs low. The ratings also derive comfort from the large, diversified and reputed customer base of the company, with low counterparty risk. Moreover, customer concentration risks are low as sales to top-20 customers contributed only ~35% to the sales in FY2019. 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 the margins to volatility in metal prices. However, the same is mitigated to some extent by the hedging strategy adopted by the company. Also, with purchases from the top-two suppliers constituting over 50% of the total purchases, supplier concentration risk remains on the higher side. ICRA, however, notes that the said 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, largely mitigates the said risks. The ratings also positively factor in the prudent working capital management of the company and the cash and liquid investments balance as on date. This along with low reliance on fund-based working capital facilities provides a considerable financial flexibility to the company and supports its debt coverage indicators. The improvement in its scale of operations and profits would be the key rating sensitivities, going forward.

¹ Sublimit of previous Letter of Credit facilities

² Sublimit of current Letter of Credit facilities

Outlook: Stable

ICRA expects that KML would continue to benefit from the lack of domestic manufacturing capacities for most of the metals that it trades in, and a stable demand outlook of these metals in the country. The outlook may be revised to Positive if there is a sustained increase in the company's scale of operations and business margins. The outlook may be revised to Negative if there is a loss in market share in these metals, leading to a reduction in business volumes.

Key rating drivers

Credit strengths

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

Diversified customer base – KML has a diversified customer base across auto, ferrous and non-ferrous metal manufacturers, battery manufacturers etc. The top-20 customers have contributed around 30-35% to KML's revenue over the years.

Low counterparty risks – KML's customers have a healthy credit profile, which reduces counterparty risks. Moreover, the company's sales are backed by the letter of credit, which secures 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.

Favourable capital structure and comfortable coverage indicators – KML is a debt free company, which leads to favourable debt coverage indicators and comfortable capital structure.

High financial flexibility – A large portfolio of free cash and liquid investment, unutilised bank lines and healthy cash accruals from business provide high financial flexibility to the company.

Credit challenges

Low value addition limits profit margins – KML's trading business is low value additive in nature, which limits profit margins.

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.

Liquidity position

KML is expected to maintain a healthy liquidity position, aided by its healthy cash flow from business, zero debt repayment liability and no capital expenditure requirement. The company's unutilised fund-based limits provide additional support to its liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company

Established in 1977, Kothari Metals Limited trades in ferrous and non-ferrous metals. The company is involved in importing and trading of products like pure nickel, tin ingot, silicon metal, magnesium ingot, ferro chrome etc. These metals are sold to customers across 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.

As per provisional results, KML made a standalone net profit of Rs. 15.5 crore on an operating income of Rs. 1,068.3 crore in FY2019. The company registered a profit after tax of Rs. 21.0 crore on the back of an operating income of Rs. 868.4 crore in FY2018.

Key Financial Indicators (Audited)

	FY 2017	FY2018	FY2019 (Provisional)
Operating Income (Rs. crore)	764.0	868.4	1068.3
PAT (Rs. crore)	14.5	21.0	15.5
OPBDIT/ OI (%)	2.45%	3.43%	2.18%
RoCE (%)	22.48%	26.07%	17.23%
Total Debt/ TNW (times)	0.1	0.1	0.0
Total Debt/ OPBDIT (times)	0.4	0.3	0.0
Interest coverage (times)	9.4	16.4	11.1

Status of non-cooperation with previous CRA

CRA	Status of Non-cooperation	Date of Press Release
Brickwork Ratings	The agency has reviewed the rating for the bank loan facilities of KML based on best available information as the issuer did not cooperate. Accordingly, the ratings for the said instrument were reaffirmed at BWR BBB-/A3 (Issuer Not Cooperating) Long-term rating – BWR BBB- (Issuer Not Cooperating) Short-term rating – BWR A3 (Issuer Not Cooperating)	December 20, 2018

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Aug 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Fund Based - Cash Credit	Long Term	(86.0) ³	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
2	Non-Fund Based	Short Term	264.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
3	Fund Based - Cash Credit	Long Term	0.00	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)
4	Non-Fund Based-Letter of Credit	Short Term	0.00	-	-	[ICRA]A2+	[ICRA]A2

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

³ sublimit of non-fund-based limits

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based - Cash Credit ²				(86.00) ²	[ICRA]BBB+(Stable)
NA	Non-Fund Based Letter of Credit	-	-	-	264.00	[ICRA]A2+

Source: Kothari Metals Limited

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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