October 23, 2023

Kothari Metals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-Interchangeable	(101.00)[1]	(101.00)[2]	[ICRA]A- (Stable); reaffirmed
Short term Non-Fund Based-Letter of Credit	331.00	331.00	[ICRA]A2+; reaffirmed
Total	**331.00**	**331.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factors in the extensive experience of the promoters in metal trading business along with its 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 ~27% of the revenues derived from the top-10 customers in FY2023. 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 debt position as on date. The liquidity also remains comfortable with free cash and liquid investment of Rs. 41.7 crore as on March 31, 2023. In FY2023, the revenues grew to Rs. 1,742.3 crore from Rs. 1,505.6 crore in FY2022. While there has been contraction in the operating margin by 240 basis points in FY2023, the overall cash flow from operations remained at a comfortable level. In the current fiscal, the financial performance is likely to remain steady with 8-10% expected growth in revenue, and the operating margins are likely to be maintained at the previous year's level. The company has already achieved revenue of Rs. 734 crore till August 2023. 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 volatility in metal prices. However, the same 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 said suppliers are among the largest producers of metals, globally. KML imports the 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 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 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 with steady performance expected in FY2024 – KML's revenue grew by 16% to Rs. 1,742 crore in FY2023 with an OPBDITA of Rs. 76 crore compared to revenue of Rs. 1,506 crore and an operating profit of Rs. 102 crore in FY2022. While the OPBDITA moderated in FY2023, the performance of the company improved significantly in FY2022 owing to shortage of nickel, post announcement of Russia-Ukraine war. A steady performance is expected in FY2024 owing to renewal of contracts with Glencore at almost similar rates. Further, KML has nil fund-based debt, which leads to favourable debt coverage indicators and a comfortable capital structure. Moreover, a large portfolio of free cash and liquid investment, unutilised bank lines and heathy 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. 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 around 20-30% 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 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.

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, 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 debt repayment liability, minimal capital expenditure requirement and free cash and liquid investment of Rs. 41.7 crore as on March 31, 2023. 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 the 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 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

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.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	1,505.6	1,742.3
PAT	77.1	61.3
OPBDIT/OI	6.8%	4.3%
PAT/OI	5.1%	3.5%
Total outside liabilities/Tangible net worth (times)	1.2	1.0
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	111.0	73.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Oct 23, 2023	Nov 03, 2022	Oct 07, 2022	Sept 20,2021	Aug 07, 2020
1	**Interchangeable**	Long term	(101.0)[3]	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**
2	**Non-fund-based Limits**	Short term	331.00	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**

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

[3] Sublimit of Letter of Credit facilities

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	(101.00)[4]	[ICRA]A- (Stable)
NA	**Non-fund-based limits**	NA	NA	NA	331.00	[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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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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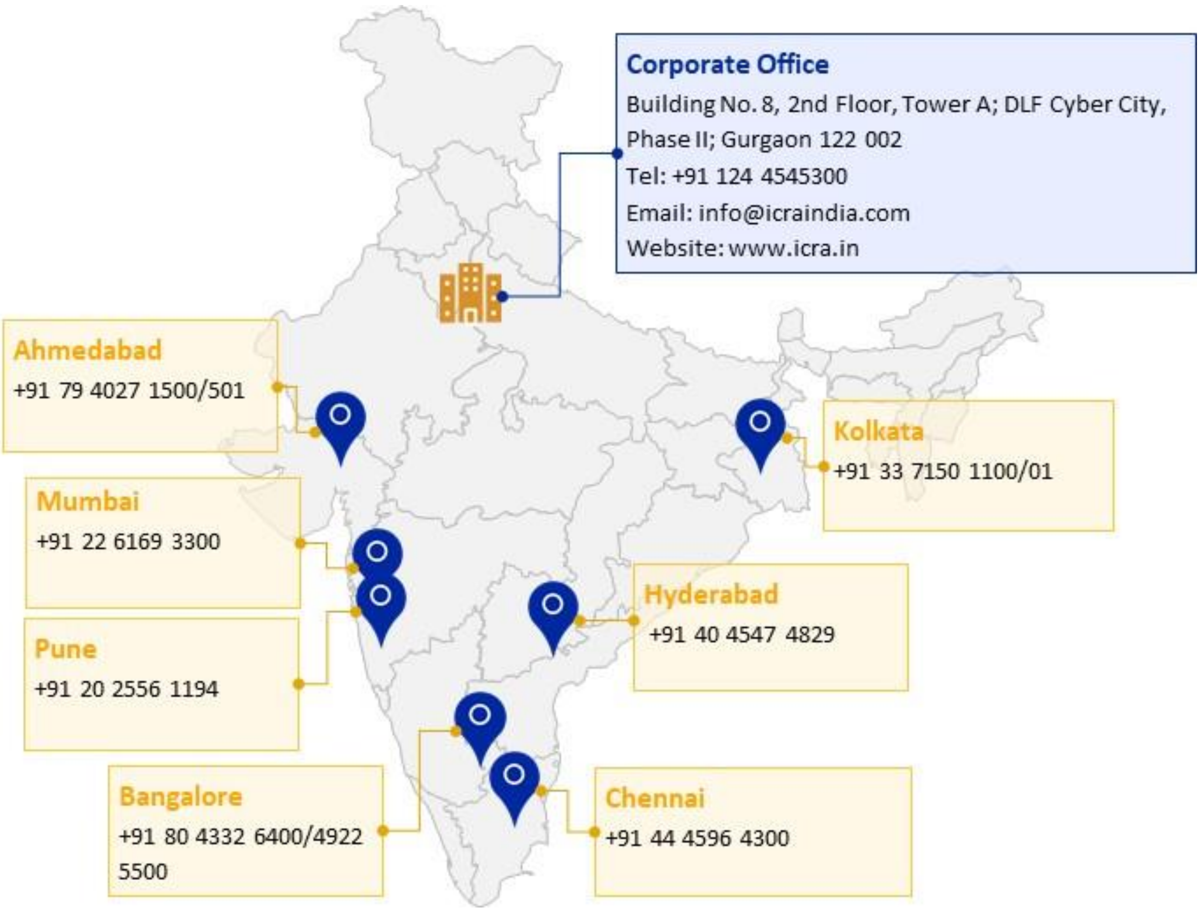

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