



Press Release

Kotak Petroleum LLP

October 19, 2020

Ratings

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Ratings | Rating Action |
|---------|--------------------------------------|--------------------|--|---------------|
| 1. | Long Term Fund Based Facilities | 20.00 | IVR BBB+/ Stable (IVR Triple B Stable Outlook) | Assigned |
| 2. | Short Term Fund Based Facilities | 43.00 | IVR A2 (IVR A Two) | Assigned |
| 3. | Short Term Non-Fund Based Facilities | 30.00 | IVR A2 (IVR A Two) | Assigned |
| | Total | 93.00 | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Kotak Petroleum LLP draws comfort from its experienced promoters group, satisfactory capital structure, healthy debt protection metrics. However, these rating strengths are partially offset by its Moderate Working Capital Intensive Nature of Operation and susceptibility to regulatory changes both in India and overseas. The Rating also considers the Healthy liquidity and the long-standing relationship with the clients as well supplier in the industry.

Key Rating Sensitivities:

Upward Factor:

- Growth in scale of operation with improvement in profit margins leading to improvement in cash accruals and liquidity position on a sustained basis
- Improvement in the capital structure and debt protection metrics
- Improvement in working capital cycle



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Downward factor:

- Deterioration in scale of operation and/or deterioration in profitability impacting the debt protection metrics on a sustained basis
- Deterioration in the capital structure
- Elongation in the operating cycle impacting the liquidity
- Any adverse regulatory changes

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoter group**

The group was established under the guidance of Mr. K.M Kotak who has over 50 years of experience in trading operations of petroleum and petrochemical products. Long-standing presence of the partners in the industry has helped the company to establish healthy relationship with its customers and suppliers and helped the Company to get repetitive orders from its customers. The Company is likely to benefit from its promoters' extensive experience going forward.

- **Satisfactory capital structure**

The overall gearing is comfortable at 0.78x as on March 31, 2020. To fund its working capital requirements the company is largely depends on working capital credit. However, total indebtedness of the company as reflected by TOL/ANW improved from 1.04x as on March 31, 2019 driven by decrease in current liability and steady accretion of profit to net worth and remained satisfactory at 0.99x as on March 31, 2020.

- **Healthy Debt protection metrics**

The debt protection metrics of the company remained healthy over the years marked by its satisfactory profitability with strong gross cash accruals. The gross cash accruals of the company witnessed a steady improvement from Rs. 8.39 crore in FY17 to Rs. 18.07 crore in FY20. The interest coverage remained strong over the years and improved substantially in FY20 due to decrease in the long-term borrowings and increasing Gross Cash Accruals to remain strong at 9.81x. Total debt to GCA remained improved at 2.34 years in FY20.



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- **Healthy liquidity**

The liquidity profile is supported by the unutilised fund-based borrowing limits available with the company. The company has strong healthy liquidity marked by its strong accruals against negligible repayment obligations attributable to low long-term debt in its capital structure. Further, the average utilisation of its working capital limit also remained comfortable at ~32.79% in the last 12 months ended on August 2020 indicating an adequate liquidity buffer.

Key Rating Weaknesses

- **Working capital intensive nature of operations**

The operation of the company is working capital intensive due to its elongated collection period. The collection period of the firm has gradually elongated from ~42 days in FY19 to ~55 days in FY20. The Working Capital Cycle of the firm has also elongated from 39 days in FY17 to 51 days in FY20. The current and quick ratios remained satisfactory at 1.98x and 1.97x respectively as on March 31, 2020.

- **Susceptible to regulatory changes both in India and overseas**

Crude oil is an important commodity traded in the international market, and trading in Petroleum Products is highly influenced by several government policies and regulations, which changes from time to time.

Analytical Approach: Consolidated (Kotak Petroleum LLP and Kotak PetroChem Pvt Ltd. Same Business being shifted from Kotak PetroChem Pvt Ltd. to Kotak Petroleum LLP)

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

KPLLP has earned a GCA of Rs. 18.07 crore compared to its debt obligation of Rs.1.19 crore in FY20. The liquidity profile is supported by the unutilised fund-based borrowing limits available with the company. The company has strong healthy liquidity marked by its strong



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accruals against negligible repayment obligations attributable to low long-term debt in its capital structure. Further, the average utilisation of its working capital limit also remained comfortable at ~33% in the last 12 months ended on August 2020 indicating an adequate liquidity buffer.

About the Company

KPLLP is a newly established limited liability partnership firm to take over the business of Kotak Petro Chem Pvt Ltd (KPCPL), which is engaged into trading of petroleum products. KPCPL will now become a partnership in the form of LLP. The company is engaged into trading of petroleum products. The company majorly deals in Furnace Oil, Bitumen, Sulphur and PET coke with various quantity, quality and counts.

Financials (Combined):

| For the year ended*/As on | 31-03-2019 | 31-03-2020 |
|--|------------|-------------|
| | Audited | Provisional |
| Total Operating Income (including GST) | 733.68 | 727.85 |
| EBITDA | 12.28 | 19.10 |
| PAT | 10.44 | 16.67 |
| Total Debt | 38.00 | 42.27 |
| Tangible Net worth | 50.06 | 52.90 |
| EBITDA Margin (%) | 1.69 | 3.06 |
| PAT Margin (%) | 1.42 | 2.65 |
| Overall Gearing Ratio (x) | 0.75 | 0.78 |

Financials (Standalone):

| For the year ended*/As on | 31-03-2019 | 31-03-2020 |
|--|------------|-------------|
| | Audited | Provisional |
| Total Operating Income(Including GST) | 83.00 | 727.85 |
| EBITDA | 2.58 | 19.10 |
| PAT | 1.92 | 16.67 |
| Total Debt | 1.92 | 43.57 |
| Tangible Net worth | 10.44 | 52.90 |
| EBITDA Margin (%) | 3.11 | 3.06 |
| PAT Margin (%) | 2.31 | 2.65 |
| Overall Gearing Ratio (x) | 0.18 | 0.82 |

**Classification as per Infomerics' standards*



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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|---------|-------------------------------|-------------------------------|--------------------------------|------------------|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Cash Credit | Long Term | 20.00 | IVR BBB+/ Stable | - | - | - |
| 2. | IBP | Short Term | 40.00 | IVR A2 | | | |
| 3. | EPC/PCFC/FBP/FBN | Short Term | (14.00) | IVR A2 | | | |
| 4. | Letter of Credit | Short Term | 25.00 | IVR A2 | | | |
| 5. | Bank Guarantee | Short Term | 5.00 | IVR A2 | | | |
| 6. | CEL on Forward Contract | Short Term | (1.50) | IVR A2 | | | |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually



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widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--|------------------|------------------|---------------|------------------------------|--------------------------|
| Long Term Fund Based- Cash Credit | - | - | - | 20.00 | IVR BBB+/ Stable |
| Short Term Fund Based- IBP | - | - | - | 40.00 | IVR A2 |
| Short Term Fund Based- EPC/PCFC/FBP/FBN | - | - | - | (14.00) | IVR A2 |
| Short Term Non-Fund Based- Letter of Credit | - | - | - | 25.00 | IVR A2 |
| Short Term Non-Fund Based- Bank Guarantee | - | - | - | 5.00 | IVR A2 |
| Short Term Non-Fund Based- CEL on Forward Contract | - | - | - | (1.50) | IVR A2 |

Annexure 2: facility wise lender details.

<https://www.infomerics.com/admin/prfiles/lender-Kotak-Petroleum-LLP-19-oct-20-.pdf>