Cochin Minerals and Rutile Limited

August 19, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.87 (Enhanced from 9.08)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	124.00 (Enhanced from 89.00)	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**136.87 (₹ One Hundred Thirty-Six Crore and Eighty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the long-term rating assigned to the bank facilities of Cochin Minerals and Rutile Limited (CMRL) factors in the considerable improvement in the revenue and margins during the last two quarters backed by uptick in demand as well as realizations of synthetic rutile and a healthy order book position providing a fair amount of revenue visibility for the medium term. CARE further believes that the current realisations of synthetic rutile are expected to sustain in the near term and shall further facilitate in maintaining healthy cash flows for the company. The ratings, continue to derive strength from long track record of operations, healthy capital structure and adequate liquidity position of the company.

The ratings are, however, constrained by the foreign exchange risk on account of majority of the sales coming from exports, susceptibility of profit margins to volatile raw material prices and client concentration risk.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Consistent growth in the scale of operations above the range of Rs.500 crore.
- Stabilize profitability levels at PBILDT in the range of 10-12%

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any debt-funded capital expenditure deteriorating the capital structure leading to gearing levels > 0.5x
- Continued client concentration risk leading to order losses.

Detailed description of the key rating drivers

Key rating strengths

Long track record of operations

The company is in the business of synthetic rutile production for more than two decades. CMRL initially started production with a capacity of 10,000 MTA which was scaled up further to 50,000 MTA under the leadership of the Managing Director Dr S.N Sasidharan Kartha. The company uses indigenous technology to produce synthetic rutile (chemically modified ilmenite with most of the non-titanium and ferrous components removed) and its by-products.

Considerable improvement in operational & financial performance

The company reported a considerable growth in the revenue of close to 20% in FY22 (refers to the period April 1 to March 31) which was supported by a good Q4FY22, wherein the company enjoyed better demand as well as realizations for its products. The trend continued in Q1FY23 with the company reporting operating income of close to Rs.99.17 crore and healthy operating margins of 10.83% backed by increase in per ton realizations and doubled volumes, when compared with same period last fiscal, wherein the company reported a total operating income of Rs 37.98 crores and negative margins of 1.34%. The company has an outstanding order book position of Rs. 300 crores as of July 2022 which provides a fair amount of revenue visibility for the medium term. Further, CARE believes that the upsurge in prices is expected to continue in the near term which shall further support the profitability and accruals for the current year.

Healthy financial risk profile marked by comfortable capital structure and debt protection metrics

The financial risk profile of the company continued to remain comfortable and healthy with a robust net worth of Rs.91.55 crores as on March 31, 2022 (PY: Rs.85.38 crore). The capital structure of the company also continued to stand comfortable with an overall gearing of 0.42x as on March 31, 2022. The debt coverage indicators remained comfortable marked by interest coverage ratio of 10.33x (PY: 11.22x) and total debt/GCA of 5.22x (PY: 0.54x) during FY22, including acceptances on LC. Low dependence on working capital facilities and minimal of long-term debt is expected to keep the capital structure comfortable going forward.

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key rating weaknesses

Susceptibility of margins to volatile raw material price and forex risk

Synthetic rutile is one of the purest forms of titanium and its demand is cyclical like that of titanium. The fortune of the company largely depends on the demand and price of synthetic rutile in the international market. Furthermore, the majority sales of the company are through exports only. Although there is a natural hedge available through import of raw material and export, there is always a foreign exchange risk pertinent to the company. On the raw material procurement front too, the company has limited control. The pricing is highly volatile as ilmenite deposits are limited and found only in a few countries and are subject to global demand supply dynamics with very limited control for the company. Due to restrictions on mining by the Kerala Government, the company had to depend mostly on imports for its ilmenite supplies. Nevertheless, from the last year, CMRL has been able to increase its sourcing from Indian Rare Earth Limited (IREL) by sourcing almost 25-20% of its ilmenite requirement from IREL against the average of 10-12% during past years which is expected to lead to saving in costs with reduced dependence on imports.

Client concentration risk

Synthetic rutile accounted close to 93% of the sales in FY22, the top 5 customers contributed around 80% of the total turnover with close to 40% of the exports to Japan. The clients include one of the largest Japanese companies like Mitsui & Co., Ltd., part of the Mitsui group and Sumitomo Corporation, Ishihara. However, the revenue concentration risk is partially mitigated due to long-term relationship with these clients.

Liquidity: Adequate

The liquidity of the company stood adequate with healthy cash accruals against NIL debt repayment obligations in FY23 and a free cash & bank balance of close to Rs.16 crores as on March 31, 2022. The operating cycle stood moderate at 28 days (PY: 51 days) with an average inventory period of 55 days and creditor period of 61 days. The current ratio of the company was at 1.32x and the quick ratio at 0.72x. The average utilization of working capital limits stood at 29% for the past 12 months ending in June 2022, while non-fund-based utilization stood close to 45%.

Industry outlook

The titanium dioxide market is expected to grow at a significant pace and this growth can be credited to the increasing product demand from the end-user industries. Usage of the product as pigments in paints & coatings formulation is expected to fuel industry growth over the next few years. Further, the Russia-Ukraine war situation has also put pressure on the supply side as Ukraine is one of the top 10 producer of Titanium dioxide and Ilmenite, contributing close to 5% of the world TiO_2 needs. This has led to prices skyrocketing around the globe which coupled with increasing demand, has benefited the company in the medium-term. With a strong presence in the market of manufacturing Synthetic Rutile and being one of the very few players, CMRL is expected to post a better performance for the ensuing period as well.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

Cochin Minerals and Rutile Limited (CMRL) were incorporated in 1989. The company started commercial production in 1993. It is a 100% export-oriented unit (EoU) engaged in the manufacture of Synthetic Rutile (SR), using ilmenite with an installed capacity of 50,000 MTA. The by-products are ferric chloride, ferrous chloride, recovered titanium dioxide, recovered upgraded ilmenite and cemox. The company is also doing R&D work for manufacture of a welding component, viz., Rutoweld. The factory is located inside the industrial area in Edayar, Kochi. The company is a zero-waste producing entity as most of the by-products of synthetic rutile such as ferric chloride and ferrous chloride are sold by the company. CMRL has a treatment effluent plant for water recycling and treatment of solid waste and has also been approved by the Kerala State Pollution Control Board. The Company had also bagged excellence award for 13 years from the Government of Kerala for implementing Pollution Control measures.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	239.37	289.93	99.17
PBILDT	20.62	9.20	10.74
PAT	8.11	6.21	8.44
Overall gearing (times)	0.10	0.42	-
Interest coverage (times)	11.29	10.33	67.13

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	9.50	CARE BBB; Stable
Fund-based - ST-EPC/PSC		-	-	-	40.00	CARE A3
Non-fund-based - ST-Bank Guarantee		-	-	-	4.00	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	80.00	CARE A3
Fund-based - LT-Term Loan		-	-	September 2028	3.37	CARE BBB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	9.50	CARE BBB; Stable	-	1)CARE BBB-; Stable (31-Aug-21)	1)CARE BBB-; Stable (07-Sep-20)	1)CARE BB+; Stable (27-Aug-19) 2)CARE BB-; Stable (22-May-19) 3)CARE BB-; Stable (03-May-19)
2	Fund-based - ST-EPC/PSC	ST	40.00	CARE A3	-	1)CARE A3 (31-Aug-21)	1)CARE A3 (07-Sep-20)	1)CARE A4+ (27-Aug-19)

								2)CARE A4 (22-May-19) 3)CARE A4 (03-May-19)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (07-Sep-20)	1)CARE BB+; Stable (27-Aug-19) 2)CARE BB-; Stable (22-May-19)
4	Non-fund-based - ST-Bank Guarantee	ST	4.00	CARE A3	-	1)CARE A3 (31-Aug-21)	1)CARE A3 (07-Sep-20)	1)CARE A4+ (27-Aug-19) 2)CARE A4 (22-May-19)
5	Non-fund-based - ST-Letter of credit	ST	80.00	CARE A3	-	1)CARE A3 (31-Aug-21)	1)CARE A3 (07-Sep-20)	1)CARE A4+ (27-Aug-19) 2)CARE A4 (22-May-19)
6	Fund-based - LT-Term Loan	LT	3.37	CARE BBB; Stable	-	1)CARE BBB-; Stable (31-Aug-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-EPC/PSC	Simple
4	Non-fund-based - ST-Bank Guarantee	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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