

Cosmo Ferrites Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	53.41 (Reduced from 64.20)	CARE BBB-; Stable	Reaffirmed
Short Term Bank Facilities	6.86 (Enhanced from 5.80)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Cosmo Ferrites Limited (CFL) continues to take comfort from the stated management support from Cosmo First Limited (Cosmo First) through service agreement, whose scope of services include business strategy, marketing and brand management, corporate finance and investor relations among others. The ratings continue to derive strength from the experienced and resourceful promoters with long track record of operations and wide range of applications of finished goods leading to customer diversification. The ratings take cognisance of the moderation in operational and financial performance during FY23 characterised by decline in profitability margins on account of subdued demand from export market. These strengths, however, continue to remain constrained by the leveraged capital structure, susceptibility of margins to raw material price volatility and foreign currency fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations above Rs. 200 crore while maintaining the PBILDT margin above 15% on a sustained basis
- Improvement in capital structure with overall gearing below 1.00x on a sustained basis
- Improvement in liquidity marked by improvement in operating cycle and lower utilization of working capital limits

Negative factors

- Decline in scale of operations below Rs. 100 crore and PBILDT margins below 10% on a sustained basis
- Any higher than envisaged increase in debt levels resulting in further worsening of overall gearing and debt coverage indicators
- Discontinuation in stated management support from Cosmo First Ltd thereby leading to overall deterioration in operational and financial risk profile.

Analytical approach: Standalone while factoring linkages with the Cosmo group in terms of stated management support through service agreement and common management.

Outlook: Stable

Stable outlook indicates continuation of support from group entity Cosmo First Ltd- in the near to medium term with gradual improvement in scale of operations and profitability.

Detailed description of the key rating drivers:

Key strengths

Established brand name of the Cosmo group and stated management support from Cosmo First Ltd

Cosmo Ferrites Limited (CFL) belongs to the Cosmo group, which was established in 1981 by Mr. Ashok Jaipuria with the incorporation of Cosmo First Limited. Cosmo First is a global leader which specializes in films for packaging, lamination and labelling applications. Its films offerings include biaxially oriented polypropylene (BOPP) films, cast polypropylene (CPP) films. CFL has a service agreement with Cosmo First Ltd for the latter to provide management support to the former since last 2 fiscals. The

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

scope of services includes business strategy, marketing and brand management, corporate finance, investor relations etc. The continued support from the group entity and timely financial support from promoters shall remain key rating sensitivity.

Experienced and resourceful promoters and long track record of operations

Established in 1986, CFL was promoted by the Jaipuria Family. CFL is managed by Mr. Ambrish Jaipuria (son of Mr. Ashok Jaipuria) having an experience of more than 15 years. Mr. Ambrish Jaipuria is ably supported by a team of well-qualified and experienced professionals and management support from Cosmo First. The company belongs to the Cosmo group, which was established in 1981 by Mr. Ashok Jaipuria with the setting up of Cosmo First Limited. The promoters are resourceful with established track record of funds infusion in the form of unsecured loans which stood at Rs. 22.00 crore as on March 31, 2023.

Wide range of application of finished goods leading to customer diversification

CFL is engaged in the business of manufacturing soft ferrites in different shapes and sizes as per required specifications. Ferrites are extensively used in Mobile Phone Charger, Automotive, BLDC Fan, AC/ Refrigerator, memory cores of computers, etc. Ferrite has a vast application from microwave to radio frequencies. It is used for antenna cores in radio receivers, fly back transformer in TV picture tube, broad band transformer, mechanical filter, ultrasonic generator, moderators, phase shift, isolators. Such wide application allows CFL to cater to a broad customer base and the top-10 customers constituted 30% of total operating income in FY23 (PY: 32%).

Moderate operational performance

During FY23, the total operating income of the company remained stable at Rs. 107.84 crore as against Rs. 114.40 crore during FY22. Around 47% of the revenue of the company is contributed by exports amongst which Europe accounts for the largest share. However, during FY23, entire Europe has been experiencing various woes including Russia-Ukraine war, recessionary pressures, over stocking and chip shortages. Due to these myriads of issues, the demand for soft ferrites saw a fall leading to decline in sales realisation. The sales realisation of soft ferrites decreased from Rs. 509 per kg in FY22 to Rs. 455 per kg in FY23. Simultaneously, the prices of key raw materials are on the rise shrinking the margins of the company. Consequently, PBILDT margin moderated to 10.46% in FY23 as against peak of 27.60% in FY22. Going forward, the PBILDT margins are expected to bounce back to around 14-15% and sustain the same in the medium term.

Key weaknesses

Leveraged capital structure

During the year, the company availed term loan amounting to Rs. 20 crores- for the purpose of capex leading to moderation in overall gearing. During FY22-23, the company incurred capex to enhance capacity of ferrites and introduce top hat kiln for value added speciality cores which was setup in Q4FY23. The overall gearing of the company moderated to 2.30x as on March 31, 2023 as against 1.64x as on March 31, 2022. Further, the debt coverage indicators of the company also moderated owing to decline in profitability. Total debt/ GCA of the company increased to 12.19x for FY23 from 2.17x in FY22 while interest coverage ratio decreased to 2.05x in FY23 from 7.76x in FY22.

Foreign exchange fluctuation risk

The business operations of CFL involve both imports and exports resulting in sales realization and cash outflow in foreign currency. CFL exports its product in overseas market such as USA, Turkey, Italy, Brazil, Germany, Hong Kong etc. and export contribution to total sales stood around 38% for FY23 (PY: 47%). Further, its import procurement to raw material cost stood at around 69% for FY23 (PY: 55%), thereby exposing CFL to volatility in foreign exchange rates. However, being importer and exporter both, the foreign currency risk is partially mitigated through a natural hedge. During FY23, the company earned Rs. 0.53 crores from exchange rate difference. Further, in the absence of any hedging policies adopted by the company, CFL is exposed to fluctuations in the value of rupee against foreign currency which may impact its cash accruals.

Raw material price volatility risk

Ferric oxide, manganese, zinc, nickel etc. are the major raw materials required for the production. Since the basic raw materials are metal derivatives, CFL is exposed to the risk of volatility in the prices of the same. Thus, margins are vulnerable to fluctuation in raw material cost. Though, the company tries to pass on the price volatility to the end users, any adverse fluctuations in the prices may put pressure on the profitability of the company. Thus, the profitability of the company is based on the ability of the company to absorb the increase in raw material prices.

Liquidity: Adequate

The adequate liquidity is characterised by modest free cash and bank balance of Rs. 9.12 crore as on March 31, 2023. Further, the company expects to earn gross cash accruals of Rs. ~12 crore during FY24 which are sufficient for scheduled repayment

obligations of Rs. 7.23 crores. The liquidity is also supported by resourceful promoters and their explicit support towards CFL as and when need arises.

The operations of the company are working capital intensive as marked by operating cycle of 88 days for FY23 increased from 63 days in FY22 mainly on account of decrease in creditors period. The creditor period decreased from 45 days in FY22 to 35 days in FY23. The working capital requirements were met largely through bank borrowings which resulted in an average utilization of around 77% of its sanctioned working capital limits for last twelve months period ended April 2023.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

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About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

Established in 1986, Cosmo Ferrites Limited (CFL) is promoted by Mr. Ashok Jaipuria, having an experience of over 3 decades. Mr. Jaipuria has also promoted Cosmo First Limited which specializes in films for packaging, lamination and labelling applications. The operations of CFL are being managed by Mr. Ambrish Jaipuria (son of Mr. Ashok Jaipuria). CFL is engaged in the business of manufacturing and export of soft ferrites of different shapes and specifications. The manufacturing facility of CFL is located in Solan, Himachal Pradesh and has an installed capacity of 3439 MT as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	114.40	107.84
PBILDT	31.58	11.28
PAT	14.23	2.42
Overall gearing (times)	1.64	2.36
Interest coverage (times)	7.76	2.05

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	23.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	31/08/2027	30.41	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	0.36	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	6.00	CARE A3

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	30.41	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Jun-22)	1)CARE BB-; Stable (31-Aug-21)	-
2	Fund-based - LT-Cash Credit	LT	23.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (21-Jun-22)	1)CARE BB-; Stable (31-Aug-21)	-
3	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE A3	-	1)CARE A3 (21-Jun-22)	1)CARE A4 (31-Aug-21)	-
4	Non-fund-based - ST-Letter of credit	ST	6.00	CARE A3	-	1)CARE A3 (21-Jun-22)	1)CARE A4 (31-Aug-21)	-
5	Non-fund-based - ST-Forward Contract	ST	0.36	CARE A3	-	1)CARE A3 (21-Jun-22)	1)CARE A4 (31-Aug-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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.

Contact us

<p>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Dinesh Sharma Director CARE Ratings Limited Phone: +91-120-445 2000 E-mail: dinesh.sharma@careedge.in</p>	<p>Analytical Contacts</p> <p>Sajan Goyal Director CARE Ratings Limited Phone: +91-120-445 2017 E-mail: sajan.goyal@careedge.in</p> <p>Puneet Kansal Associate Director CARE Ratings Limited Phone: +91-120-445 2018 E-mail: puneet.kansal@careedge.in</p> <p>Sunidhi Vyas Lead Analyst CARE Ratings Limited E-mail: sunidhi.vyas@careedge.in</p>
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About us:

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