Cochin Minerals and Rutile Limited

December 01, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	4.87 (Reduced from 12.87)	CARE BBB; Stable	Reaffirmed; Outlook revised from Positive
Short Term Bank Facilities	132.00 (Enhanced from 124.00)	CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings continue to derive strength from the 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: Factors likely to lead to rating actions

Positive factors

- Consistent growth in the scale of operations above the range of ₹500 crore.
- Sustainable improvement in profitability levels with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 10-12%.

Negative factors

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

Analytical approach: Standalone

Outlook: Stable

The revision in outlook from 'Positive' to 'Stable' to the bank facilities of Cochin Minerals and Rutile Limited (CMRL) reflects the slowdown in the sales momentum on back of muted demand in the export market leading to decrease in sales volumes in the current year. While the orderbook continues to be healthy, the deferment of shipments from the primary customers of the company is expected to result in lower-than-envisaged sales and profitability in the medium term. However, the comfortable order book is likely to ensure a healthy business profile in the medium term.

Detailed description of the key rating drivers:

Key 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.

Strong performance in FY23 albeit moderation in current year

The company reported a strong growth in the revenue of close to 55% in FY23 (refers to the period April 1 to March 31) driven by better demand as well as realizations for its products. The synthetic rutile continued to be the highest contributor to the overall revenue, with about 90% sales contribution in FY23. The company also reported historically-high operating margins of 15.68% backed by increase in per ton realizations and volumes, when compared with the same period last fiscal. However, the revenue moderated in H1FY24 with the company reporting operating income of close to ₹118.52 crore on account of muted demand from the export customers leading to deferred shipments and the profitability has also returned to previous levels due to correction in prices. The company has an outstanding order book position of ₹313 crore as of September 30, 2023, which provides a fair

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

amount of revenue visibility for the medium term. Furthermore, CARE Ratings Limited (CARE Ratings) expects the prices to remain stable in the near term, which shall 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 ₹146.30 crore as on March 31, 2022 (PY: ₹91.55 crore). The capital structure of the company also continued to stand comfortable with an overall gearing of 0.03x as on March 31, 2023. The debt coverage indicators remained comfortable marked by interest coverage ratio of 39.68x (PY: 10.33x) and total debt/gross cash accruals (GCA) of 0.09x (PY: 5.22x) during FY23. Furthermore, in H1FY24, the overall gearing improved to 0.02x due to net worth accretion and low utilization of working capital limits. The debt coverage and interest coverage ratio has also improved significantly in H1FY24. CARE Ratings expects the low dependence on working capital facilities and minimal of long-term debt to keep the capital structure comfortable going forward.

Key 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 similar to 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 also, 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 the 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, the company's imports have come down gradually in the last two years, as it has been receiving supply from the local supplier of ilmenite, Indian Rare Earth Limited (IREL) by sourcing almost 30-35% of its ilmenite requirement from IREL which has led to lower raw material cost. Furthermore, since the import suppliers are being arranged by its primary customer, Mitsui, the company negotiates setting international prices or IRE prices as benchmark depending on whichever is lower.

Client concentration risk

Synthetic rutile accounted close to 95% of the sales in FY23. The top five customers contributed around 82% of the total turnover with close to 61% 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, and the company has also procured orders worth of ₹57 crore from new the customers, namely Jiangsu Provincial Trade Corporation and Xiamen Xiangyu Logistic Group Corp., from China in FY23 and 5MFY24.

Liquidity: Adequate

The liquidity of the company stood adequate with healthy cash accruals against NIL debt repayment obligations in FY24 and a free cash & bank balance of close to ₹50 crore as on March 31, 2023. The company usually places surplus cash as fixed deposit just-in-time to meet its Letter of credit (LC) obligation as and when it becomes due. The operating cycle improved and stood comfortable at 25 days (PY: 28 days) led by improvement in inventory and receivables position. With overall gearing well below unity, CMRL has sufficient headroom to raise additional debt for its capex plans or working capital requirements. The company holds an average inventory of around 90-120 days to meet the order book on schedule. The current ratio of the company was at 3.71x and the quick ratio at 2.81x. The average utilisation of working capital limits stood low at 29% for the past 12 months ending in August 2023, while non-fund-based utilisation stood close to 60%.

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Commodity chemicals

CMRL was 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 the 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 byproducts 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.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (P)
Total operating income	289.93	447.78	118.52
PBILDT	9.20	76.23	8.61
PAT	6.21	56.43	5.62
Overall gearing (times)	0.42	0.03	0.02
Interest coverage (times)	10.33	39.68	29.69

A: Audited, P: Provisional; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Nil

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		-	-	-	1.50	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	01-09-2028	3.37	CARE BBB; Stable
Fund-based - ST-EPC/PSC		-	-	-	48.00	CARE A3+
Non-fund-based - ST-Bank Guarantee		-	-	-	4.00	CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	80.00	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-Cash Credit	LT	1.50	CARE BBB; Stable	1)CARE BBB; Positive (03-Apr-23)	1)CARE BBB; Stable (19-Aug-22)	1)CARE BBB-; Stable (31-Aug-21)	1)CARE BBB-; Stable (07-Sep-20)
2	Fund-based - ST-EPC/PSC	ST	48.00	CARE A3+	1)CARE A3+ (03-Apr-23)	1)CARE A3 (19-Aug-22)	1)CARE A3 (31-Aug-21)	1)CARE A3 (07-Sep-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (07-Sep-20)
4	Non-fund-based - ST-Bank Guarantee	ST	4.00	CARE A3+	1)CARE A3+ (03-Apr-23)	1)CARE A3 (19-Aug-22)	1)CARE A3 (31-Aug-21)	1)CARE A3 (07-Sep-20)
5	Non-fund-based - ST-Letter of credit	ST	80.00	CARE A3+	1)CARE A3+ (03-Apr-23)	1)CARE A3 (19-Aug-22)	1)CARE A3 (31-Aug-21)	1)CARE A3 (07-Sep-20)
6	Fund-based - LT-Term Loan	LT	3.37	CARE BBB; Stable	1)CARE BBB; Positive	1)CARE BBB; Stable	1)CARE BBB-; Stable	-

					(03-Apr-23)	(19-Aug-22)	(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
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: 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

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Sandeep P Director **CARE Ratings Limited** Phone: +91-44-2850 1002 E-mail: sandeep.prem@careedge.in Jitendra Singh Assistant Director **CARE Ratings Limited** Phone: +91-422- 433 2399 E-mail: Jitendra.singh@careedge.in Aabild William Analyst **CARE Ratings Limited** E-mail: Aabild.William@careedge.in

About us:
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