

## Cochin Rubbers

August 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	36.44	CARE BB-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	25.00	CARE BB-; Stable / CARE A4	Assigned
Short Term Bank Facilities	8.56 (Reduced from 33.56)	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Cochin Rubbers (CR) continue to be constrained by relatively moderate scale of operations, moderate capital structure and debt protection metrics, risk associated with renewal of short-term rental contracts and capital withdrawal risk with the proprietorship nature of the firm. The ratings, however, derive strength from vast experience of the promoter in tyre retreading industry with established relationships with customers, and diversified stream of revenue.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Ability to increase the scale of operations above Rs.150.0 crore with PBILDT margin above 8% on sustained basis.
- Ability to improve overall gearing below 2.5x.

#### Negative factors

- Any withdrawal of capital leading to deterioration of overall gearing by more than 4.0x.
- Decrease in total operating income below Rs.75.0 crore.

**Analytical approach:** Standalone

#### Outlook: Stable

The 'Stable' outlook reflects that the firm is expected to sustain its operational performance with benefits derived from diversified revenue stream comprising of revenue from manufacturing and trading of rubber products and regular stream of rental income.

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Relatively moderate scale of operations, however grown over the years

CR was established during 1982. The firm is into manufacturing of Pre-cured Tread Rubbers (PCTR), Conventional Tread Rubbers and other rubber products, primarily catering to heavy vehicle tyre segment. The firm also trades synthetic rubber. Over the past five years ended FY24, the scale of operation has been improving at a compounded annual growth rate (CAGR) of 45.03%. However, the total operating income (TOI) of the firm stood relatively moderate at Rs.107.80 crore in FY24. The PBILDT margin, which stood high at 33.38% in FY21, largely contributed from rental income had declined over the years to 8.78% in FY24 with an increased proportion of trading income.

##### Moderate capital structure and debt protection

The capital structure of the firm stood moderate with overall gearing at 3.42x as on March 31, 2024 albeit improved from 4.18x as on March 31, 2023. The firm has availed lease rental discounting (LRD) term loan of Rs.42.0 crore in FY23 and FY24 and invested in one of its group company, Cochin Rubbers Private Limited for purchase of a land for future development. The debt protection metrics also stood moderate with Total debt/ GCA at 9.75x as on March 31, 2024 (PY: 8.45x)

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Proprietorship nature of business constitution with inherent risk of withdrawal of capital**

CR is a proprietorship nature of business wherein the inherent risk of withdrawal of capital by the promoter at the time of their personal contingencies resulting in erosion of capital base leading to adverse effect on capital structure. However, the risks associated with the proprietorship nature of the firm is outweighed by the significant experience of the promoters and their ability to bring in capital to support the operations. The promoters had withdrawn net capital of Rs. 34.51 crore in FY23 for investing in another group company.

**Lease renewal risk with short term agreements for rental income**

CR derives rental income in the range of Rs.7.7-8.6 crore over the past 3 years ended FY24, by letting out its premises for lease rental. CR had also availed LRD loan of Rs.42 crore against the above rent receipts. The lease agreements are for a shorter tenure of up to 11 months with smaller lock in period and hence the ability of the firm to renew such agreements and quickly identify a replacement to fill up the vacancy will remain crucial from the credit perspective. The Rental revenue of the firm remains contingent on renewal/termination of lease agreement which makes cash flow susceptible and a key rating monitorable

**Key strengths****Vast Experience of the proprietor**

The firm was established and managed by Mr. P. M. Shamshudeen. He has more than four decades of experience in tyre retreading industry. He is supported by Mrs. Shahida Shamsudeen, wife of the proprietor. Mr. Mohammed Zahir, the second-generation entrepreneur and son of Mr. P. M. Shamsudeen, is also actively involved in the day-to-day business activities.

**Diversified revenue stream**

The firm's revenue stream is diversified into trading, manufacturing and rental income. The firm trades synthetic rubber and the contribution of income from trading division to total operating income (TOI) has increased significantly from 13% in FY23 to 52% in FY24. The income from the manufacturing division forms 41% (PY: 13%) of TOI in FY24 while the rest is contributed from rental income.

**Liquidity: Stretched**

The liquidity of the firm is stretched, marked by tightly matched cash accruals against repayment of Rs.3.8 crore in FY25. The firm receives rental income which is directly discounted for repayments of LRD loan through waterfall mechanism. However, there is no Debt Service Reserve Account (DSRA) requirement which makes the timely receipt of rental income critical to the credit perspective. The operating cycle stood stretched at 93 days in FY24 albeit improved from 117 days in FY23. The average utilization of working capital limits of Rs.25.0 crore stood high at around 95% for the past 12 months ended July 2024. The current ratio stood at 1.29x as on March 31, 2024.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

**Applicable criteria**

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Auto Components & Equipments](#)

[Rating methodology for Debt backed by lease rentals](#)

[Short Term Instruments](#)

[Wholesale Trading](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Tyres & Rubber Products

CR was established during the year 1982. It is a proprietorship firm and was promoted by Mr. Shamsudeen. The firm offers products like Pre-cured Tread Rubber (PCTR), Bonding Gum and Vulcanising Solution through own manufacturing and also trades synthetic rubber. The company is certified with ISO 9001:2015 QMS certificate.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	51.11	88.47	107.80
PBILDT	7.97	7.50	9.46
PAT	7.05	4.79	5.88
Overall gearing (times)	0.00	4.18	3.42
Interest coverage (times)	26.58	3.07	1.82

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-Lease rental discounting/ Rent Receivables Financial		-	-	-	36.44	CARE BB-; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	25.00	CARE BB-; Stable / CARE A4
Fund-based - ST-Bank Overdraft		-	-	-	8.56	CARE A4

**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 2024-2025	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
1	Fund-based - LT-Lease rental discounting/ Rent Receivables Financial	LT	36.44	CARE BB-; Stable	1)CARE BB-; Stable (11-Jun-24)	-	-	-
2	Fund-based - ST-Bank Overdraft	ST	8.56	CARE A4	1)CARE A4 (11-Jun-24)	-	-	-
3	Fund-based - LT/ST-Working Capital Limits	LT/ST	25.00	CARE BB-; Stable / CARE A4				

LT: Long term; ST: Short term; LT/ST: 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-Lease rental discounting/ Rent Receivables Financial	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	Fund-based - ST-Bank Overdraft	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

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