

Cochin Minerals and Rutile Limited

November 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1.50	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	132.00	CARE A3+	Reaffirmed
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Cochin Minerals and Rutile Limited (CMRL) continue to derive strength from the long track record of operations, comfortable capital structure, and debt coverage indicators of the company. However, ratings are constrained by the foreign exchange risk considering majority sales coming from exports, profit margins susceptible to raw material and end product price volatility, and client concentration risk.

CARE Ratings Limited (CARE Ratings) has withdrawn the outstanding ratings of 'CARE BBB; Stable' [Triple B; Stable] assigned to the term loan facility, as the same stands closed.

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 over 0.5x.
- Continued client concentration risk leading to order losses.
- Any major adverse outcome of on-going investigations against the company /promoters affecting the company operations.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company shall continue to benefit from the long-established relationship with its export customers and maintain its financial risk profile on the back of a comfortable capital structure.

Detailed description of key rating drivers:

Key strengths

Long track record of operations

The company is in synthetic rutile production for over 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 and its by-products.

Comfortable capital structure and debt protection metrics

The company's capital structure remained comfortable with an overall gearing of 0.33x as on March 31, 2024 (PY: 0.03x). Debt coverage indicators remained comfortable marked by interest coverage ratio of 25.66x (PY: 39.68x) and total debt/PBILDT of 1.19x (PY: 0.06x) in FY24. CARE Ratings expects the company's low dependence on fund-based working capital limits and absence of debt-funded capex plans will help maintain a healthy capital structure in the medium term.

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

Key weaknesses

Volatile income levels and profitability

The company's total operating income (TOI) had been in the range of ₹230-290 crore in FY20-FY22, which grew by 54% in FY23. Rutile prices reached to a record level in FY23 due to supply chain disruption, which contributed to the sharp increase in TOI. However, TOI moderated to ₹303 crore in FY24 due to cooling off of synthetic rutile prices and sluggish demand from end-user industries. Due to an uptick in the demand and improved orders, TOI for H1FY25 improved to ₹180 crore up from ₹119 crore in H1FY24. The company has an outstanding order book of ₹179 crore as on September 26, 2024, providing good revenue visibility. PBILDT margin remained moderated at 13.68% in FY24 against 17.02% in FY23 with the drop in scale and realisation. Nevertheless, through optimised pricing strategies and enhanced local procurement, the company has managed to maintain its operating margin well above the historical average of 9.36% over the past four years. The company's PAT was also affected by a higher tax outflow in FY24. This was on account of an income tax demand payout for a sum of ₹18 crore in FY24. However, profitability has improved in the current year with PBILDT margin and PAT margin of 11.93% and 7.22%, respectively, in H1FY25 compared to 7.28% and 4.58% in the same period last year.

Susceptibility of margins to volatile raw material price and forex risk

Synthetic rutile, one of the purest forms of titanium, experiences cyclical demand, similar to titanium. The fortune of the company largely depends on the demand and price of synthetic rutile in the international market. The majority sales of the company are through exports. Though there is a natural hedge available through import of raw material and export, the margins are exposed to foreign exchange fluctuations. The raw material 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. Nevertheless, the company's imports have gradually decreased in the last two years, as it has been sourcing nearly 40-45% of its ilmenite requirement from local supplier, Indian Rare Earth Limited (IREL), thereby leading to lower raw material cost. 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 90% of the sales in FY24. The top five customers contributed ~93% of the total turnover with 50-60% of the exports to Japan. The clients include one of the largest Japanese companies such as Mitsui & Co., Ltd., part of the Mitsui group and Sumitomo Corporation, Ishihara. However, the revenue concentration risk is partially mitigated to a certain extent due to long-term relationship with these clients, and the company has also procured orders worth ₹56 crore from new customers, Sumisho Metalex Corporation and Ishihara Techno Corporation, in H1FY25.

Industry Outlook

In FY24, the titanium dioxide market experienced correction in demand and prices from the high base year of FY23 with subdued demand for the product from the paint and coatings industry. This moderation was due to factors including slowdown in Chinese property market, ongoing geopolitical tensions, and inflationary pressures leading to producers destocking their inventories. However, there was an uptick in demand and stabilisation of rutile prices from Q4FY24. The anticipated reduction in interest rates in major economies and recovery in demand from paint and coatings industry is expected to improve sales volumes. With a strong presence in the market of manufacturing synthetic rutile and being one of the few players, CMRL is expected to post a stable performance for the ensuing period as well.

Liquidity: Adequate

The liquidity of the company stood adequate with healthy cash accruals against nil debt repayment obligations in FY25 and a free cash & bank balance of close to ₹23.61 crore as on March 31, 2024. The operating cycle moderated to 96 days (PY: 25 days) in FY24 due to higher inventory holding towards the end of the financial year. Bulk import of raw materials in Q4FY24 lead to higher inventory holding and increased LC utilisation toward the year end. The average utilisation of working capital limits stood low at 18% for the past 12 months ending in August 2024, while non-fund-based utilisation stood close to 41%.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & petrochemicals	Commodity chemicals

CMRL was incorporated in 1989 and started commercial production in 1993. It is a 100% export-oriented unit (EoU) engaged in manufacturing 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 performing research & development (R&D) work for manufacturing a welding component, 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 solid waste treatment, and has also been approved by the Kerala State Pollution Control Board.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	447.78	303.26	180.3
PBILDT	76.23	41.48	21.51
PAT	56.43	8.59	13.01
Overall gearing (times)	0.03	0.33	NA
Interest coverage (times)	39.68	25.66	NA

A: Audited, UA: Unaudited, NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	1.50	CARE BBB; Stable
Fund-based - LT-Term loan		-	-	01-09-2028	0.00	Withdrawn
Fund-based - ST-EPC/PSC		-	-	-	48.00	CARE A3+

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 and Rating Outlook
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 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-Cash credit	LT	1.50	CARE BBB; Stable	-	1)CARE BBB; Stable (01-Dec-23) 2)CARE BBB; Positive (03-Apr-23)	1)CARE BBB; Stable (19-Aug-22)	1)CARE BBB-; Stable (31-Aug-21)
2	Fund-based - ST-EPC/PSC	ST	48.00	CARE A3+	-	1)CARE A3+ (01-Dec-23) 2)CARE A3+ (03-Apr-23)	1)CARE A3 (19-Aug-22)	1)CARE A3 (31-Aug-21)
3	Non-fund-based - ST-Bank guarantee	ST	4.00	CARE A3+	-	1)CARE A3+ (01-Dec-23) 2)CARE A3+ (03-Apr-23)	1)CARE A3 (19-Aug-22)	1)CARE A3 (31-Aug-21)
4	Non-fund-based - ST-Letter of credit	ST	80.00	CARE A3+	-	1)CARE A3+ (01-Dec-23)	1)CARE A3 (19-Aug-22)	1)CARE A3 (31-Aug-21)

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
						2)CARE A3+ (03-Apr-23)		
5	Fund-based - LT-Term loan	LT	-	-	-	1)CARE BBB; Stable (01-Dec-23) 2)CARE BBB; Positive (03-Apr-23)	1)CARE BBB; Stable (19-Aug-22)	1)CARE BBB-; Stable (31-Aug-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of 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 detailsTo view lender-wise details of bank facilities please [click here](#)

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

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About us:

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