

## Cosmo Ferrites Limited

June 21, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	64.20 (Enhanced from 46.80)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Short Term Bank Facilities	5.80 (Enhanced from 3.20)	CARE A3 (A Three)	Revised from CARE A4 (A Four)
<b>Total Bank Facilities</b>	<b>70.00</b> <b>(₹ Seventy Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Cosmo Ferrites Limited (CFL) factors in the stated management support from Cosmo Films Limited (Cosmo Films) through service agreement, whose scope of services include business strategy, marketing and brand management, corporate finance and investor relations among others. Although, the service agreement was entered in January 2022 but the dialogues were going on between the leadership teams of both the companies since mid-2021. The revision in ratings also factors in significant improvement in operational and financial risk profile of CFL during FY22 (refers to the period April 01 to March 31). The company reported a significant growth of 79% in total operating income and profitability margins (27.60%) during FY22 further leading to improvement in capital structure and debt coverage indicators.

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. These strengths, however, continue to remain constrained by the project implementation risk associated with the capacity enhancement project, susceptibility of margins to raw material price volatility and foreign currency fluctuation risk.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations above Rs. 200 crore while maintaining the PBILDT margin above 25% 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- Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations below Rs. 100 crore and PBILDT margins below 20% on a sustained basis
- Deterioration in overall gearing above 1.80x on a sustained basis
- Delay in completion of the project of capacity enhancement with cost overrun
- Discontinuation in stated management support from Cosmo Films thereby leading to overall deterioration in operational and financial risk profile.

### Detailed description of the key rating drivers

#### Key Rating Strengths

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

Cosmo Ferrites Limited (CFL) belongs to the Cosmo group, which was established in 1981 by Mr. Ashok Jaipuria with the incorporation of Cosmo Films Limited. Cosmo Films 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.

As on January 28, 2022, CFL has entered into a service agreement with Cosmo Films Ltd for the latter to provide management support to the former. Though the agreement was signed in January 2022 the dialogues were going on between the leadership teams of both the companies since mid-2021. The scope of services includes business strategy, marketing and brand

<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

management, corporate finance, investor relations etc. Consequent to the support, the operational and financial risk profile has shown significant improvement during FY22.

### **Improvement in operational and financial risk profile during FY22**

During FY22, the total operating income of the company exhibited a y-o-y growth of 79% to Rs. 114.40 crore from Rs. 64.04 crore. The growth is attributable to both increase in sales volumes and sales realization. With the management support coming from Cosmo Films, the company has focused on improving production efficiency by removing various bottlenecks from the production process leading to an increase in capacity utilization to 85% in FY22 from 69% in FY21.

The profitability of the company also improved significantly with PBILDT margin of 27.60% in FY22 as against 10.94% in FY21 largely on account of economies of scale and cost rationalization measures taken by the company to procure raw material domestically thereby saving cost of raw material consumption. Additionally, the company has shifted focus from lighting (lower margin segment) to non-lighting segment (higher margin segment) and decreased the contribution of lighting segment to sales to 22% in FY22. Subsequently, the company generated healthier PAT and gross cash accruals of Rs. 14.23 crores and Rs. 22.61 crores respectively (PY: Rs. 1.81 crores and Rs. 4.16 crores respectively).

### **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 Films. The company belongs to the Cosmo group, which was established in 1981 by Mr. Ashok Jaipuria with the setting up of Cosmo Films 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, 2022.

### **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 18% of total operating income in FY22 (PY: 33%).

### **Key Rating Weaknesses**

#### **Moderate albeit improved capital structure and debt-coverage indicators**

The capital structure of the company has improved during FY22 marked by overall gearing of 1.64x as on March 31, 2022 as against 3.22x as on March 31, 2021 largely due to accretion of profits to reserves. While the total debt of the company remained at similar levels at Rs. 49.05 crore as on March 31, 2022 (PY: Rs. 50.17 crore), the net worth of the company almost doubled to Rs. 29.86 crore as on March 31, 2022. Further, the debt coverage indicators have also shown improvement as total debt/ GCA and interest coverage ratio were recorded at 2.17x and 6.79x respectively for FY22 (PY: 12.05x and 0.89x respectively).

#### **Project risk**

The company plans to enhance the production capacity to 3600 Tons per annum from 2400 Tons by setting up a new kiln. Additionally, the company is also setting up a top hat kiln with a capacity of 300 tons per annum to meet the customer's demand in the mobile charger segment. The capex to be incurred in FY23 is estimated to be around Rs. 20 crores which will be funded through term loan of Rs. 15 crores and rest from internal accruals. The project for capacity expansion is in advance stages of completion and the commercial operations are expected to start from July 2022. The company is exposed to stabilisation risk post completion of project and shall remain a key monitorable.

#### **Foreign currency 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, etc. leading to an export contribution to total income of around 47% for FY22 (PY: 47%). Further, its import procurement to raw material cost stood at around 55% for FY22 (PY: 57%). The company is thus, exposed to volatility in foreign exchange rates. However, being importer and exporter both, the foreign currency risk is partially mitigated through a natural hedge and the company earned Rs. 0.56 crores from exchange rate difference during FY22. Nonetheless, in the absence of any hedging policies adopted by the company, CFL is exposed to fluctuations in the foreign currency which may impact its cash accruals.

#### **Raw material price volatility risk**

Ferric oxide, manganese, zinc 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. Therefore, the profitability of the company is based on the ability of the company to pass on the increase in raw material prices.

#### **Liquidity: Adequate**

The adequate liquidity is characterized by a significant growth in gross cash accruals from Rs. 4.16 crores in FY21 to Rs. 22.61 crores in FY22. Further, the company generated Rs. 19.46 crores from cashflow from operations during FY22. The capex requirement for FY23 is around Rs. 20 crores for the purpose of capacity expansion to be funded through debt and internal accruals. The repayment obligations for FY23 stands at Rs. 3.06 crore as against the expected gross cash accruals of around Rs. 24 crore.

The operations of the company are working capital intensive as marked by operating cycle of 63 days for FY22 increased from 47 days in FY21 mainly on account of decrease in creditors period. The creditor period decreased from 72 days in FY21 to 45 days in FY22 due to averaging effect. The working capital requirements were met largely through bank borrowings which resulted in an average utilization of around 54% of its sanctioned working capital limits for last twelve months period ended April 2022.

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

#### **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](#)

[Manufacturing Companies](#)

#### **About the company**

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 Films 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 2400 MT as on March 31, 2022.

<b>Brief Financials (Rs. crore)</b>	<b>31-03-2020 (A)</b>	<b>31-03-2021 (A)</b>	<b>31-03-2022 (A)</b>
<b>Total operating income</b>	56.44	64.04	114.40
<b>PBILDT</b>	-2.52	7.01	31.58

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)
<b>PAT</b>	-10.03	1.81	14.23
<b>Overall gearing (times)</b>	3.05	3.22	1.64
<b>Interest coverage (times)</b>	-0.60	2.03	7.76

A: Audited

**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-Term Loan		-	-	August 2027	48.20	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	16.00	CARE BBB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	0.50	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	5.00	CARE A3
Non-fund-based - ST-Forward Contract		-	-	-	0.30	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 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-Term Loan	LT	48.20	CARE BBB-; Stable	-	1)CARE BB-; Stable (31-Aug-21)	-	-
2	Fund-based - LT-Cash Credit	LT	16.00	CARE BBB-; Stable	-	1)CARE BB-; Stable (31-Aug-21)	-	-
3	Non-fund-based - ST-Bank Guarantee	ST	0.50	CARE A3	-	1)CARE A4 (31-Aug-21)	-	-
4	Non-fund-based - ST-Letter of credit	ST	5.00	CARE A3	-	1)CARE A4 (31-Aug-21)	-	-
5	Non-fund-based - ST-Forward Contract	ST	0.30	CARE A3	-	1)CARE A4 (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	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: 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](mailto:care@careedge.in) for any clarifications.

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#### About us:

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