

## Cochin Minerals and Rutile Limited

August 31, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	1.58	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long-term Bank Facilities	7.50 (Enhanced from 1.50)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	89.00 (Enhanced from 71.40)	CARE A3 (A Three)	Reaffirmed
<b>Total Bank Facilities</b>	<b>98.08</b> <b>(Rs. Ninety eight crore and eight lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

*The ratings assigned to the bank facilities of Cochin Minerals and Rutile Limited (CMRL) continue to derive strength from long track record of operations, satisfactory profitability margins, favourable net worth base and the wide range of applicability of synthetic rutile across the economy. The ratings also factor in the 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

**Positive factors:** *Factors that could lead to positive rating action/upgrade*

- Consistent growth in the scale of operations above the range of Rs.300 crore
- Stabilize profitability levels at PBILDT in the range of 9%-10%

**Negative factors:** *Factors that could lead to negative rating action/downgrade*

- Continued client concentration risk leading to order losses

### Detailed description of the key rating drivers

#### Key Rating 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 for the production of synthetic rutile (chemically modified ilmenite with most of the non-titanium and ferrous components removed) and its by-products.

##### **Stable operational & financial performance, albeit moderated in Q1FY22**

The company reported a relatively stable performance in FY21 (refers to the period April 1 to March 31), with a marginal moderation in the sales by 10% despite impact of the pandemic on the operations in Q1FY21. The company's main product synthetic rutile accounted for around 90% of the total sales in FY21 followed by ferric chloride and ferrous chloride which are by-products of synthetic rutile. The capacity utilization remained moderate between 53-55% in the last three years. However, the performance moderated in Q1FY22 wherein the revenue dipped by almost 40% vis-à-vis previous year owing to lower demand from Japan which is one of the major export destinations for CMRL resulting in operating losses during the period. Nevertheless, the company has an outstanding orderbook position of Rs.299.32 crore to be executed by end of FY22 which provides a fair amount of revenue visibility for the current year.

##### **Healthy financial risk profile marked by comfortable capital structure and debt protection metrics**

The financial risk profile of the company is healthy marked by net worth of Rs.85.37 crore and low overall gearing at 0.10x as on March 31, 2021. The debt coverage indicators remained comfortable marked by interest coverage ratio of 11.32x and total debt/GCA of 0.54 years during FY21. Low dependence on working capital facilities and minimal of long-term debt is expected to keep the capital structure comfortable going forward.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### ***Positive demand outlook for synthetic rutile with increasing applications***

The global titanium dioxide market size was valued at USD 16.98 billion in 2020 and is expected to grow at a compound annual growth rate (CAGR) of 8.3% from 2021 to 2028. This growth can be credited to the increasing product demand from the end-user industries. Usage of the product as pigments in paints & coatings formulation is expected to fuel industry growth over the next few years. Shifts in consumer behaviour continue to support upward pressure in the TiO<sub>2</sub> market, with paint and coating demand sustained by an uptick in DIY sales globally and low housebuilder inventories. Industrialization should underpin demand in the long-term as GDP grows in emerging economies in tandem with urbanization.

### **Key Rating 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 that of 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 too, 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 global demand supply dynamics with very limited control for CMRL.

#### ***Client concentration risk***

Synthetic rutile accounted for 90% of the sales in FY21. The company has customers both abroad and in India and thus, the top 5 customers contributed around 88% of the total turnover with more than 65% 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 presence of contracts

#### ***Liquidity: Adequate***

The liquidity of the company stood adequate with healthy cash accruals against debt repayment obligations of Rs.2.28 crore for FY22 and cash & bank balance of Rs.1.26 crore as on March 31, 2021. The operating cycle stood moderate at 51 days (PY: 57 days) with an average inventory period of 84 days (RM inventory of 72 days and FG inventory of 29 days) and creditor period of 71 days. The current ratio of the company was 2.60 and quick ratio was 1.69. The average utilization of working capital limits stood at 35% for the past 12 months ending in July 2021. The company has opted for covid line of credit of Rs.3.15 crore for April 2020 and the company has not used the ad-hoc limits although the same has been sanctioned by the banker.

#### **Analytical approach: Standalone**

#### **Applicable Criteria**

[Criteria on assigning outlook and credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity analysis of non-financial sector entities](#)

#### **About the Company**

Cochin Minerals and Rutile Limited (CMRL) were 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 up-graded ilmenite and cemox. The company is also doing R&D work for manufacture of a welding component, viz., Rutoweld. The factory is located inside the industrial area in Edayar, Kochi.

<b>Brief Financials (Rs. crore)</b>	<b>FY20 (A)</b>	<b>FY21 (A)</b>
Total operating income	264.51	239.37
PBILDT	23.48	20.63
PAT	5.98	16.24
Overall gearing (times)	0.11	0.10
Interest coverage (times)	7.48	11.32

A: Audited

**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 for this company:** Annexure 4

**Bank Lender Details:** Annexure 5

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	7.50	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	30.00	CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	4.00	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	55.00	CARE A3
Fund-based - LT-Term Loan	-	-	March 22	1.58	CARE BBB-; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	7.50	CARE BBB-; Stable	-	1)CARE BBB-; Stable (07-Sep-20)	1)CARE BB+; Stable (27-Aug-19) 2)CARE BB-; Stable (22-May-19) 3)CARE BB-; Stable (03-May-19)	-
2.	Fund-based - ST-EPC/PSC	ST	30.00	CARE A3	-	1)CARE A3 (07-Sep-20)	1)CARE A4+ (27-Aug-19) 2)CARE A4 (22-May-19) 3)CARE A4 (03-May-19)	-
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (07-Sep-20)	1)CARE BB+; Stable (27-Aug-19) 2)CARE BB-; Stable (22-May-19)	-

							19)	
4.	Non-fund-based - ST-Bank Guarantees	ST	4.00	CARE A3	-	1)CARE A3 (07-Sep-20)	1)CARE A4+ (27-Aug-19) 2)CARE A4 (22-May-19)	-
5.	Non-fund-based - ST-Letter of credit	ST	55.00	CARE A3	-	1)CARE A3 (07-Sep-20)	1)CARE A4+ (27-Aug-19) 2)CARE A4 (22-May-19)	-
6.	Fund-based - LT-Term Loan	LT	1.58	CARE BBB-; Stable	-	-	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this company**

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 Guarantees	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

**Annexure 5: Bank Lender Details:** [Click here to view Bank Lender Details](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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