

## Cosmo Ferrites Limited

August 31, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	46.80	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Short Term Bank Facilities	3.20	CARE A4 (A Four)	Assigned
<b>Total Bank Facilities</b>	<b>50.00</b> <b>(Rs. Fifty Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Cosmo Ferrites Limited (CFL) are constrained by the small scale of operations of the company and leveraged capital structure marked by low net worth base. The ratings also factor in the project implementation risk associated with the capacity enhancement undertaken by the company. The ratings are also constrained by the susceptibility of margins to raw material price volatility and foreign currency fluctuation risk.

The ratings, however, derive strength from the experienced promoters with long track record of operations. The ratings also take comfort from the improved income and profitability during FY21 (refers to the period from April 1 to March 31) and the wide range of applications of finished goods leading to customer diversification.

### Rating Sensitivities

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

- Increase in scale of operations above Rs. 90.00 crore while maintaining the PBILDT margin above 13% on a sustained basis
- Improvement in capital structure with overall gearing below 2.00x on a sustained basis

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

- Decline in scale of operations below Rs. 50.00 crore and PBILDT below 11% on a sustained basis.
- Deterioration in overall gearing below 3.50x.
- Delay in in completion of the project of capacity enhancement with cost overrun

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### **Small scale of operations**

The scale of operations of the company has remained low marked by a total operating income (TOI) of below Rs. 80 crore in last 3 fiscal years. The TOI of the company decreased to Rs. 56.44 crore in FY20 from Rs. 80.00 crore in FY19 mainly due to closure of the LED division of the company. However, during FY21 TOI exhibited a growth rate of 15% on y-o-y basis and stood at Rs. 64.64 crore owing to increase in exports and growing presence in domestic market due to various initiatives by Government of India to push the demand for locally manufactured goods. Still the small scale of operations limits the company's financial flexibility in times of stress and deprives it from scale benefits.

##### **Leveraged capital structure**

The capital structure of the company is leveraged marked by an overall gearing of 3.13x as on March 31, 2021 mainly on account of high working capital utilization and short-term unsecured loans from promoters of Rs. 22.55 crore as on March 31, 2021. The debt-coverage indicators improved in FY21 owing to increased profitability however continues to remain weak. The total debt to GCA and interest coverage ratio stood at 11.70x and 2.23x respectively for FY21.

##### **Project risk**

The company plans to enhance the production capacity by setting up a new kiln. The additional kiln will enhance the capacity by 1200 tons for the year and the company expects the revenue to increase by around 50% in FY22 with this additional capacity. The total cost of the project is estimated at around Rs. 26.28 crore (including working capital margin). The project cost to tangible net worth stood at 1.69x as on March 31, 2021.

The project will be funded through a combination of debt, equity, and government grants in the ratio of 39:26:36.

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

**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 49% for FY21. Furthermore, its import procurement to raw material cost stood at around 57% for FY21. 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. 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**

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 absorb the increase in raw material prices.

**Key Rating Strengths****Experienced promoters and long track record of operations**

Established in 1986, Cosmo Ferrites Limited was promoted by the Jaipuria Family. CFL is managed by Mr. Ambrish Jaipuria having an experience of more than 15 years. Mr. Jaipuria is ably supported by a team of well-qualified and experienced professionals. The company belongs to the Cosmo group, which was established in 1981 by Mr. Ashok Jaipuria with the setting up of Cosmo Films Limited.

**Moderate profitability**

The profitability of the company has improved as characterized by an PBILDT margin of 11.88% in FY21 as compared to a loss of Rs. 2.52 crore at PBILDT level in FY20. The improvement is attributable to increase in average realization from Rs. 281 per MT in FY20 to Rs. 335 per MT in FY21 on the back of increased demand in the domestic market and negotiated terms with the suppliers. Subsequently, the PAT margin for FY21 stood at around 2.79% as against a loss of Rs. 10.03 crore at PAT level in FY20.

**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 specifications for transformers. Soft ferrites find their application in electronic components such as transformers, antennas, microwave components, chargers etc. CFL's product serves all major applications like Solar Inverter, Sensor, VFD Drive, Energy Meter, Lighting, SMPS, Battery Charger, Induction welding/heating application. Such wide application allows CFL to cater to a broad customer base and the top-10 customers constituted 33% of total operating income in FY21.

**Liquidity: Stretched**

The liquidity is marked by a current ratio of 0.43x for FY21 and a modest cash balance of around Rs. 0.11 crore as on March 31, 2021. The repayment obligations for FY22 stands at around Rs. 2.93 crore as against projected gross cash accruals of more than Rs.10 crore.

Further, the operations of the company are working capital intensive marked by an average operating cycle of around 47 days mainly driven by inventory holding period of 68 days for FY21. During FY21, the company purchased around 43% of its total raw material requirement from domestic market while the rest of the requirement is met through imports leading to a high inventory period. The high working capital requirements were met largely through bank borrowings which resulted in a maximum utilization of around 90% of its sanctioned working capital limits for last twelve months period ended June 2021.

**Analytical approach:** Standalone

**Applicable Criteria**

[Rating Methodology - Manufacturing Companies](#)

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

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

[Liquidity Analysis of Non-Financial Sector Entities](#)

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

[Criteria for Short Term Instruments](#)

### 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 3000 MT for components and 3600 MT for powder as on March 31, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	56.44	64.64
PBILDT	-2.52	7.68
PAT	-10.03	1.81
Overall gearing (times)	3.05	3.13
Interest coverage (times)	-0.60	2.23

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

### 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-Term Loan	-	-	-	30.80	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	16.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	2.50	CARE A4
Non-fund-based - ST-Forward Contract	-	-	-	0.20	CARE A4

**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-Term Loan	LT*	30.80	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	16.00	CARE BB-; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A4	-	-	-	-
4.	Non-fund-based - ST-Letter of credit	ST	2.50	CARE A4	-	-	-	-
5.	Non-fund-based - ST-Forward Contract	ST	0.20	CARE A4	-	-	-	-

\*Long Term / Short Term

**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.	Non-fund-based - ST-Bank Guarantees	Simple
3.	Non-fund-based - ST-Forward Contract	Simple
4.	Non-fund-based - ST-Letter of credit	Simple

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

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6754 3573

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name - Puneet Kansal

Contact no.- +91-11-45333225

Email ID- - [puneet.kansal@careratings.com](mailto:puneet.kansal@careratings.com)

### Relationship Contact

Name: Swati Agrawal

Contact no. : +91-11-45333200

Email ID : [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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