Cochin Minerals and Rutile Limited

August 27, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	4.46 (reduced from 5.71)	**CARE BB+; Stable (Double B Plus; Outlook : Stable)**	**Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)**
Short-term Bank Facilities	71.40	**CARE A4+ (A Four Plus)**	**Revised from A4 (A Four)**
Total Facilities	**75.86 (Rupees Seventy Five crore and Eighty Six lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Cochin Minerals and Rutile Limited (CMRL) factors in the sharp increase in scale of operations in FY19 and Q1FY20, improvement in profitability margins, debt coverage indicators and better liquidity position.

The ratings continue to derive strength from long track record of operations, comfortable capital structure and favorable net worth base.

The ratings however are constrained by scale of operations still being moderate, foreign exchange risk on account of majority sales coming from exports and susceptibility of profit margins to volatile raw material and end product prices.

Going forward, the ability of the company to further scale up operations, sustain profitability margins and effectively managing the working capital will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations

The scale of operations of the company remained moderate with capacity utilization of 54% in FY19. The revenue over the years remained volatile owing to muted demand and fall in synthetic rutile price but has increased in FY19 and Q1FY20. Synthetic rutile is used in a variety of applications like airplanes, rockets, satellite, industrial heat exchangers, titanium dioxide pigment, for various medical applications like heart valves, stent, knee-joint, dental implants, mobile phones etc. These basically drive the demand for rutile. The company's entire sales are exported and global demand supply dynamics determine the demand and pricing

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. Further, the majority sales of company are through exports only. Although, there is a natural hedge available through import of raw material and export, however 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.

Key Rating Strengths

Long track record of operations

The company is in the business of synthetic rutile production for more than 25 years. The company initially started production with a capacity of 10,000 MTA which was scaled 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.

Increase in scale of operations in FY19 and Q1FY20

The scale of operations registered a sharp increase of 36.63% in FY19 on account of increase in rutile prices and higher realization. In Q1FY20, CMRL has registered Total Operating Income of Rs.72.31 crore which is 61% more than the TOI of Q1FY19 i.e. Rs.44.80 crore. The company's main product Synthetic rutile accounted for around 93% of total sales in FY19 and Q1FY20. The company's entire sales are exported and global demand supply dynamics determine the demand and pricing.

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Improved profitability margins in FY19 and Q1FY20

The company had made 24% and 21% PAT margin in FY12 and FY13 respectively when the synthetic rutile price was at all-time high. Post that, for 4 years from FY14 to FY 17, the company made net losses. However, owing to increased demand, the prices picked up in FY18 and once again company made net profit. PBILDT and PAT margin in FY19 improved from 6.07% to 8.04% and 0.81% to 2.43%. The same has further improved to 12.23% and 4.48% in Q1FY20. As per industry reports, it is expected that prices of Synthetic Rutile will increase further, auguring favorably for prospects of the company.

Comfortable capital structure and debt coverage indicators

The company's capital structure is comfortable with debt equity ratio improving from 0.15x as on March 31, 2018 to 0.07x as on March 31, 2019. Interest coverage stood comfortable at 3.07x in FY19 and 7.31x in Q1FY20. Total debt to gross cash accruals also improved from 19.90 years in FY18 to 6.92 years in FY19.

CMRL has promoted a company named Kerala Rare Earths and Minerals Limited (KREML) for mining and separation of minerals in 2001 with an investment of Rs.13.61 crore. The adjusted net worth after considering investment in KREML as on March 31, 2019 was Rs.59.64 crore.

Liquidity: Stretched – CMRL's inventory holding is stretched at about for 3-4 months as the raw material availability is limited and to cater to orders at a short notice. However, the business experiences a high amount of volatility and stocking of high level of inventory can lead to losses in case of unfavorable pricing scenario as was witnessed in the past and thereby impact the liquidity position of the company. In the recent months, favorable industry environment has helped the company obtain advances from customers and improve its operating cash flow and liquidity position. This is evidence by the improvement in average CC utilization which was 95% for nine months ending September 2018 to 71% for the nine months ending June 2019. Continuation of the favorable pricing environment would be key to a sustained improvement in the liquidity position of the company. The company has limited term loan repayments and had a cash and bank balance of Rs.4.44 crore as on March 31, 2019.

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

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 Industrial area in Edayar, Kochi.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	164.94	225.35
PBILDT	10.02	18.12
PAT	1.34	5.47
Overall gearing (times)	0.84	0.88
Interest coverage (times)	1.40	3.07

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

Annexure-1: Details of 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	-	-	-	1.50	CARE BB+; Stable
Fund-based - ST-EPC/PSC	-	-	-	30.00	CARE A4+
Fund-based - LT-Term Loan	-	-	March 2020	2.96	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.40	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	40.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	1.50	CARE BB+; Stable	1)CARE BB-; Stable (22-May-19) 2)CARE BB-; Stable (03-May-19)	-	-	-
2.	Fund-based - ST-EPC/PSC	ST	30.00	CARE A4+	1)CARE A4 (22-May-19) 2)CARE A4 (03-May-19)	-	-	-
3.	Fund-based - LT-Term Loan	LT	2.96	CARE BB+; Stable	1)CARE BB-; Stable (22-May-19)	-	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	1.40	CARE A4+	1)CARE A4 (22-May-19)	-	-	-
5.	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A4+	1)CARE A4 (22-May-19)	-	-	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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