

Cochin Minerals and Rutile Limited

September 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	1.50	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short-term Bank Facilities	71.40	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Long-term Bank Facilities	0.00		Withdrawn
Total Facilities	72.90 (Rs. Seventy two crore and ninety lakh only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Cochin Minerals and Rutile Limited (CMRL) factors in the consistent improvement in operational & financial performance, healthy capital structure and adequate liquidity position. The ratings continue to derive strength from long track record of operations, improvement in profitability margins, favorable net worth base and the wide range applicability of synthetic rutile across the economy.

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 and client concentration risk.

Positive Factors

- 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

- Any debt-funded capital expenditure deteriorating the capital structure leading to gearing levels > 0.5x
- 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 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.

Consistent Improvement in financial and operational performance

The scale of operations registered an increase of 17% in FY20 (refers to the period April 1 to March 31) on account of increase in rutile prices and higher realization as the industry demand for synthetic rutile was increasing. The company's main product Synthetic rutile accounted for around 91% of the total sales in FY20 followed by ferric chloride and ferrous chloride which are by products of synthetic rutile. The sales realization of synthetic rutile witnessed continuous increase in the past three years mainly due to its increased application in various industries. This basically drives the demand for rutile and has seen rise in demand especially in the pharmaceutical industry and paint industry over the past few years. The capacity utilization remained moderate at 54.42% in FY20 and 46.46% in Q1FY21 with a turnover of Rs. 63 crore for Q1FY21. The PBILDT margin of the company improved in FY20 to 8.88% from 8.04% in FY19 and 6.07% in FY18 mainly on the back of improved realizations of synthetic rutile and growth in revenue. The same has further improved to 9.41% for Q1FY21.

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 over Rs.77.29 crore as on March 31, 2020. The company's capital structure is comfortable with nil long term borrowings and overall gearing at 0.11x as on March 31 2020, improved from 0.55x as on March 31, 2019. Non-utilisation of the working capital facilities and absence of long

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

term debt, has resulted in comfortable capital structure as on the March 31 2020. The debt coverage indicators remained comfortable marked by interest coverage ratio of 7.48x and total debt/GCA of 10.51 years during FY20.

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. Further, the majority sales of 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 91% of the sales in FY20. 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.

Impact of covid-19

The Covid-19 led national shutdown since March 23 2020 and the resultant halt to commercial activity has severely dented the prospects of the Indian economy. All sectors of the economy have been impacted, with varying degree of severity. However, as ferric chloride comes under essential commodity used in water purification, it was classified as an essential service and allowed to resume operations after 20 days of shut down with reduced capacity. Initially company faced shortage of raw materials with reduced operations of vendor but then went on to pick up its orders and started full-fledged operations by May 2020. The working capital utilisations stood low at Rs.0.02 crores as on June 31 2020 with on time collections and improved accruals.

Liquidity: Adequate

The liquidity of the company stood adequate with healthy cash accruals against nil repayment obligations and cash & bank balance of Rs.3.60 crore. The operating cycle was 100 days with an average inventory period of 134 days (RM inventory of 83 days and FG inventory of 65 days) and creditor period of 58 days. The current ratio of the company was 1.31 and quick ratio was 0.55. The average utilization of working capital limits stood at 25% for the past 12 months ending in July 2020. Also, CMRL has not availed any moratorium for its limits due to covid-19 pandemic.

Analytical approach: Standalone

Applicable Criteria

[CARE's methodology for manufacturing companies](#)

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

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

[Criteria for Short Term Instruments](#)

[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 Industrial area in Edayar, Kochi.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	225.35	264.51
PBILDT	18.12	23.48
PAT	5.47	5.98
Overall gearing (times)	0.88	0.11
Interest coverage (times)	3.07	7.48

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

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	-	-	-	1.50	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	30.00	CARE A3
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantees	-	-	-	1.40	CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	40.00	CARE A3

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	1.50	CARE BBB-; Stable	-	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 A4+ (27-Aug-19) 2)CARE A4 (22-May-19) 3)CARE A4 (03-May-19)	-	-
3.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BB+;	-	-

						Stable (27-Aug-19) 2)CARE BB-; Stable (22-May-19)		
4.	Non-fund-based - ST-Bank Guarantees	ST	1.40	CARE A3	-	1)CARE A4+ (27-Aug-19) 2)CARE A4 (22-May-19)	-	-
5.	Non-fund-based - ST-Letter of credit	ST	40.00	CARE A3	-	1)CARE A4+ (27-Aug-19) 2)CARE A4 (22-May-19)	-	-

Annexure 3: Detailed explanation of covenants of the rated 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

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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