September 15, 2023

Core Carbons Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based facilities – Cash credit	40.00	40.00	[ICRA]A- (Stable); reaffirmed
Long term/Short term - Interchangeable	(40.00)	(40.00)	[ICRA]A-(Stable)/[ICRA]A1; reaffirmed
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of the ratings continues to factor in Core Carbons Private Limited's (CCPL) healthy financial profile, characterised by increased revenues, comfortable capital structure and a strong liquidity position. The company's revenues increased to Rs. 300.2 crore in FY2023 from Rs. 268 crore in FY2022. Further, the operating margins improved in FY2023 on account of higher sales realisation of activated carbon and reduction in raw material prices. The change in product mix with an increasing share of high-yielding products also supported the realisations and operating margins in FY2023. The gearing was 0.1 times as on March 31, 2023 with a strong liquidity position, characterised by free cash and bank balances of Rs. 110.7 crore as on March 31, 2023.

CCPL is one of the early entrants in India in manufacturing activated carbon and is one of the largest players with an operational installed capacity of 25,776 MTPA. The ratings also consider the long track record of the promoters in activated carbon manufacturing and the favourable demand prospects for coconut shell-based activated carbon in the global markets on account of a growing population and the acute need for superior waste disposal management.

The ratings, however, are constrained by the susceptibility of the margins to the fluctuation in the prices of the key raw material - coconut shell-based charcoal - and the company's limited pricing flexibility in the export market. However, the profitability rose significantly in FY2023 as raw material prices declined with an improvement in the supply of coconut shell charcoal in the market. As the entire revenue is derived from exports, the margins are susceptible to foreign exchange fluctuations as well. The ratings also consider the high customer concentration risk and the intense competition in the export market from other tropical countries and large international players in the organised segment. The regulatory risks inherent in manufacturing activated carbon remains a rating concern.

The Stable outlook reflects ICRA's expectation that the company will continue to benefit from the extensive experience of the promoters in the activated carbon business and the favourable demand prospects for coconut shell-based activated carbon. Further, the company's financial risk profile is expected to remain healthy.

Key rating drivers and their description

Credit strengths

Favourable demand prospects for coconut shell-based activated carbon – Activated carbon is widely used in the purification industry, namely the water, air and gas purification industries and for gold extraction purposes. Regulations related to water and air pollution across the world have a major role to play in influencing the demand for activated carbon. A growing population and the acute need for superior waste disposal management will generate demand for activated carbon in hazardous waste incineration and clinical waste incineration applications. Further, the demand for coconut shell-based activated carbon will be on the rise in the long term as manufacturing coal-based activated carbon has a detrimental effect on the environment.

Experience of promoters in activated carbon industry for more than two decades – CCPL, incorporated in 1998, is one of the early entrants in India in manufacturing activated carbon and is one of the largest players with an installed operational capacity of 25,766 MTPA as on date. The promoters have more than two decades of experience in activated carbon manufacturing.

Healthy financial risk profile – The company's capital structure is robust, with gearing at 0.1 times and TOL/TNW of 0.1 times as on March 31, 2023. The company does not have any long-term debt, and as on March 31, 2023, the company had working capital borrowings of Rs. 16.1 crore. The working capital utilisation has remained nil in the last four months. The revenues increased by 12% YoY to Rs. 300.2 crore in FY2023 from Rs. 268 crore in FY2022 and the OPBDITA levels improved to Rs. 37.1 crore in FY2023 from Rs. 15.7 crore in FY2022 on account of higher sales realisation of activated carbon and reduction in raw material prices of charcoal. CCPL's coverage indicators remain healthy with interest coverage at 22.6 times for FY2023.

Credit challenges

Cyclical nature of business; margins exposed to volatility in raw material prices – The supply of coconut shell-based charcoal is cyclical as the yield of coconut depends on the monsoons. Any scarcity in coconut shell supply will directly impact the production and the margins will be affected by an increase in charcoal prices. The supply of coconut shell generally lags by a year of producing the coconuts as coconut shells come last in the line of coconut use. There was excess supply of coconut shells in FY2023 due to a better monsoon, which brought down the prices of coconut shell and reduced charcoal prices during the fiscal. However, the raw material prices remain highly volatile.

High customer concentration risk – CCPL has increased its customer portfolio over the years and at present caters to customers across the globe. It has a well-diversified geographic portfolio, which includes the US, Germany, Africa, Switzerland, the Netherlands and Korea. However, the top-five customers accounted for ~55-57% of the total sales in FY2022 and FY2023, resulting in high customer concentration risk.

Intense competition in export market; exposure to regulatory risks – Tropical countries such as the Philippines, Indonesia, Malaysia, Sri Lanka and India are the primary producers of coconut shell-based charcoal due to the abundance of the primary raw material. Numerous players from these countries give tough competition to the company, limiting its pricing flexibility. Further, the primary raw material, coconut shell-based charcoal, is conventionally obtained by burning coconut shells in large pits. As the burning of shells results in environmental pollution, there is a regulatory risk of possible restriction on its manufacturing using conventional methods.

Liquidity position: Strong

The liquidity position of the company continues to be strong, supported by healthy cash balance of Rs. 110.68 crore as on March 31, 2023. CCPL does not have any debt repayment obligations. It also has a comfortable buffer in fund-based working capital limits as the working capital utilisation has remained at an average level of 23% in the last 12 months ended July 2023. The company uses its funds from the current account as and when needed to meet its working capital requirement. The company covers ~50-60% of the EEFC account through forward contracts.

Rating sensitivities

Positive factors – CCPL's ratings can be upgraded if the company shows a sustained improvement in the scale of operations amid healthy profitability.

Negative factors – Pressure on CCPL's ratings could arise if its profitability is impacted by any significant decline in revenue or increase in input costs due to a change in industry conditions. Any major capex/investment that weakens CCPL's liquidity position will also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Core Carbons Private Limited, incorporated in 1998, manufactures coconut-shell based activated carbon that finds application mainly in water and air purification and gold extraction. CCPL has an operational installed capacity to manufacture 25,776 MT of activated carbon a year from its manufacturing plant in Coimbatore, Tamil Nadu. The company had incurred significant capex in FY2023 to enhance the capacity to 30,000 MTPA from 25,776 MTPA. However, the operational consent is likely to be received by FY2024-end from the Pollution Control Board (PCB) to commence the operations of the enhanced capacity. CCPL primarily caters to the export market and its primary export destinations are European Union countries, the US and Japan. Further, the carbon dust produced while manufacturing activated carbon is sold in the domestic market to agarbathi manufacturers and other food processing industries.

Key financial indicators

	FY2022	*FY2023P
Operating income	268.0	300.2
PAT	16.6	31.5
OPBDIT/OI	5.9%	12.4%
PAT/OI	6.2%	10.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.1
Total debt/OPBDIT (times)	1.9	0.4
Interest coverage (times)	15.2	22.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31,2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 15, 2023	Jun 23, 2022	-	Mar 09, 2021
1	Cash credit	Long-term	40.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)
2	Non-fund based	Short-term	-	-	-	-	-	[ICRA]A1

3	**Interchangeable**	Long-term/ Short-term	(40.00)	-	**[ICRA]A- (Stable)/ [ICRA]A1**	**[ICRA]A- (Stable)/ [ICRA]A1**	-	**[ICRA]A- (Stable)/ [ICRA]A1**
4	**Unallocated**	Long-term/ Short-term	-	-	-	-	-	**[ICRA]A- (Stable)/ [ICRA]A1**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based facilities	Simple
Long term/Short term -Interchangeable	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here.

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash credit**	NA	NA	NA	40.00	[ICRA]A-(Stable)
NA	**Foreign bill discounting**	NA	NA	NA	(40.00)	[ICRA]A-(Stable)/[ICRA]A1

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis - Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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